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ABSTRACT

This report concentrates on the equity problem in Illinois public school finance. Central to this report is the thesis that there are three basic strategies for attacking the equity problem: make adjustments in the existing "foundation level" grant-in-aid system, abandon the "foundation" idea for a grant-in-aid system, and accept full State funding. The document examines in detail the strengths and weaknesses of each of these major strategies and the various tactical options possible under each major strategy outlined. Two chapters present an analysis of capital financing in Illinois and some of the revenue implications of school finance reforms in that State. A final chapter contains individual memoranda of comments, reservations, and dissent from members of the advisory committee. Related documents are ED 060 544 and EA 005 218-220. (Author/DN)

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April, 1973

Final Report of the Superintendent's Advisory Committee on School Finance

The Office of the
Superintendent of
Public Instruction
State of Illinois
Michael J. Bakalis
Superintendent

EA 005 217

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March 12, 1973

The Honorable Michael J. Bakalis
Superintendent of Public Instruction
302 State Office Building
Springfield, Illinois 62706

Dear Superintendent Bakalis:

It is our pleasure to present to you the Final Report of the Superintendent's Advisory Committee on School Finance.

The Advisory Committee has met regularly since its inception in January, 1972 to discuss the varied problems of financing public education in the seventies. The issues with which the Committee dealt were not simple ones. They entailed many complex questions of educational quality and inequality, levels of government spending and participation, and local and state taxation policies. As in all human endeavors, the members of the Committee looked at these questions through the prism of individual and societal values. Many opposing views were expressed and debated. Some were resolved and some were not. We have attempted in our Final Report to place these views in perspective, to examine the various alternatives objectively, and to recommend reasonable solutions.

In our estimation, the recommendations contained in this Report are practical, organizationally sound, and fiscally responsible suggestions for a more effective and equitable system of school finance. This Report is not, however, intended as the final solution to all the problems facing public education in Illinois. It is offered as a platform for discussion and planning which will hopefully provide the State with a system of school finance which not only meets the requirements of the United States Constitution but also those of the Illinois Constitution. Only time can tell its true import.

Thank you for the opportunity to add our contribution to Illinois' continuing search for educational excellence.

Sincerely yours,

G. Alan Hickrod

G. Alan Hickrod
Chairman

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INTRODUCTION

This publication constitutes the fourth and final product of the research and deliberations of the Superintendent's Advisory Committee on School Finance. During 1972 and early 1973 three previous volumes of contributed papers were published. Appendix B indicates the content of those prior volumes. This report concentrates upon the equity problem in Illinois public school finance. The equity problem has been highlighted in recent years by a series of constitutional challenges to the institutional structure by which the states finance education. The most well-known cases are probably *John Serrano, Jr.* v. *Ivy Baker Priest* and *Demetrio P. Rodriquez et al. v. San Antonio Independent School District, et al.* While recent litigation has helped greatly to focus public attention on the equity problem it is by no means a new issue in public school finance. In fact, the record will indicate that serious study of this matter has gone on intermittently for at least seven decades in the United States. It would therefore be naive to believe that a social and economic problem studied by scholars for seventy years could be solved by any group of men in a single year. We do believe, however, that we have made some contributions toward a solution in these four volumes that will be of use to the executive, legislative, and judicial branches of government.

It is the central thesis of this report that there are *three basic strategies* for attacking the equity problem.* The first strategy consists of making adjustments, sometimes major adjustments, in the existing "foundation level" grant-in-aid system. The second approach, by contrast, would abandon the "foundation" idea and adopt instead a grant-in-aid system that would give great importance and weight to the "fiscal effort" that a local school district exerts on behalf of public education. These first two strategies retain the joint state-local partnership notion of funding K-12 education. The third approach, full state funding, would, however, reject that state-local partnership assumption and place the full responsibility for funding K-12 education at the state level. In the pages which follow the strengths and weaknesses of each of these major strategies are examined in some detail and various tactical options which are possible under each major strategy are outlined.

This report is the joint product of all members of the Committee. Since the report was not written by one man, or even a small group of men, the reader will find that it does not read quite as smoothly, perhaps, as documents which are authored by a smaller number of individuals. The reader will also find that there are parts of the document which are actually in conflict with other portions of the manuscript. We have deliberately allowed this conflict to remain in the final manuscript since it would be dishonest to convey the impression that consensus exists where, in reality, no consensus was possible. While all members of the Committee did participate in the construction of the final report, it is nevertheless appropriate to point out contributions of selected members in order to fix responsibility for matters of fact and opinion expressed in these pages. We also wish to credit individuals who are not members of the Committee, but whose efforts greatly aided the Committee in accomplishing its mission.

In Chapter One Robert Schoeplein, Don Strong, and Alan Hickrod explore the basic nature of the equity problem and offer some assessment of how well the present general purpose grant-in-aid has met this problem. In Chapter Two James Heins, Fred Bradshaw, and Robert Schoeplein offer quite different solutions to the equity problem all operating, however, within the "foundation level" strategy. As is true of all proposals outlined in this document, the total cost to the state of each of these proposals is indicated as well as the effect of each proposal on selected school districts. Chapter Three, authored by William P. McLure†, presents an extensive and detailed analysis of the "equal expenditure for equal effort" principle. McLure demonstrates how the "effort" factor can be built into many different kinds of grants-in-aid. Chapter Three also contains information on the application of the principle of "differential needs" to Illinois. Chapter Four continues the analysis of "equal expenditure for equal effort" and provides a series of models any one of which might serve as a basis of new legislation *if* the effort principle is accepted. Models in this chapter were constructed for the Committee by Ben Hubbard, Alan Hickrod, Robert Pyle, Ray Lows, and William Cote. Lows provides an illustration in this chapter of "district power equalization," a system gaining popularity elsewhere in the United States.

In Chapter Five Arthur Wise and Alan Thomas present argumentation for "full state funding" and indicate how this might be achieved in Illinois. This proposal, as indeed other proposals outlined in this report, is phased in over a number of years. Wise concentrates on the legal and public policy argumenta-

* We do not claim originality for this approach. For an earlier version see Barro, Stephen M., *Alternatives in California School Finance*, 1971, Rand Corporation, Santa Monica, California.

† With assistance of William Johnson and Boontuang Sompong, Research Assistants for processing of data.

tion while Thomas outlines alternatives for achieving this goal. In Chapter Six Robert Burnham presents an analysis of capital financing in Illinois which again highlights the equity problems in this special area of school finance. In this analysis of capital financing Burnham was assisted by a sub-committee consisting of: George Ackerlund, Ralph Belnap, Elwood Egelston, Ogie Ellis, Leslie Purdy, Joseph Carey, Thomas Denny, James Howard and Fred Owens.‡ Chapter Seven changes the focus from the allocation side of the fiscal structure to the revenue side. Leo Cohen outlines in this chapter some of the revenue implications of school finance reform in Illinois. Chapter Eight contains individual memoranda of comment, reservation and dissent. Again, it was thought more intellectually honest to convey both the amount of dissensus as well as the degree of consensus that existed among the members of the Committee.

To credit all the supporting staff in the Office of Superintendent of Public Instruction and the cooperating universities that helped to produce four large volumes would be clearly impossible. Our considerable debt to a number of secretaries and typists must remain anonymous. Certain members of the OSPI staff, however, deserve special mention. The extensive amount of computer simulation that was required for the various proposals in this report was coordinated and supervised in an especially able and efficient manner by Robert Pyle. Some additional computer work was provided by Ramesh Chaudhari of the Illinois State University computer service department, and Mr. Chaudhari also provided Appendix A. That this report emerges in as readable a form as it is should be credited to Robert Clark. Mr. Clark not only provided invaluable editorial services, he also acted as a one-man secretariat during the entire year, supervised the publication and dissemination of the four volumes, and helped draft various sections of the final report. The Committee is especially indebted to Associate Superintendent Donald Eslick. Superintendent Eslick participated in virtually all the deliberations of the Committee and constantly supported individual and group research efforts.

This is a long and, in several places, a rather technical report. The Committee, however, felt that it should resist the pressure for quick and easy solutions to what are very complicated economic, social, and educational problems. That there are quick and easy solutions we do not doubt. The only problem is that such solutions often prove to be fundamentally wrong.

January, 1973 GAH

‡ Contributing authors to Chapter Six were Ackerlund, Belnap, Burnham and Egelston.

CONCLUSIONS AND RECOMMENDATIONS

GENERAL CONCLUSIONS:

— Financial disparities exist among Illinois school districts which are unacceptable to this Committee.

— These disparities are produced by variations in district wealth, tax paying ability, and the priorities assigned by the citizens of each district to educational spending relative to other possible expenditures.

— These fiscal disparities contribute, at least in part, to unequal educational opportunities in Illinois.

— The present financing of Illinois schools does not reduce fiscal disparities nor contribute to equalizing educational opportunity to the extent that this Committee deems desirable.

GENERAL RECOMMENDATIONS:

— Despite extensive debate and discussion, the Committee could not arrive at consensus on only one strategy to recommend as a means of reducing fiscal disparities. Three major strategies were subjected to analysis. An exposition of the various tactical options and methods of implementation of each of these strategies makes up the body of chapters two, three, four, and five of this report. The three major strategies and the final voting of the Committee were as follows:

  — The Committee prefers a full state funding program which provides state aid to districts in the amount of the 90th percentile of current expenditures.
  Voting: Seven first choices, three second choices, four third choices.

  — The Committee prefers a formula based upon equal expenditures for equal effort with the expenditure level of a district determined by its tax effort.
  Voting: Five first choices, seven second choices, two third choices.

  — The Committee prefers to retain the present Strayer-Haig type foundation formula and modify it to the extent necessary to achieve greater equalization among districts.
  Voting: Two first choices, four second choices, eight third choices.

  Since each major strategy is conceptually separate, a set of recommendations was then developed for each strategy and is presented hereafter.

FULL STATE FUNDING

If the State of Illinois should adopt the plan for full state assumption of the costs of elementary and secondary education, the following recommendations are submitted for implementing that plan.

— The implementation of this plan will require a statewide tax on all commercial, industrial, and residential property.

  A state property tax rate should be established at a level sufficiently high to permit a transition to full funding. The additional revenue which is subsequently needed should be provided from non-property tax sources.

— The investment which Illinois makes in the education of its citizens should be sufficient to permit this State to retain the leadership its best systems now possess, and to ensure a high quality education for all its citizens.

  The plan calls for establishing a level of expenditure and for raising expenditures to this level over a four-year period. A "save harmless" clause would protect (and freeze) expenditures above this level.*

— The State should conduct continuing studies of general cost differentials among broad areas of the State. Cost of living (e.g., wholesale price index) differentials are not identical with cost of education differences. The latter would take into consideration input prices and also, eventually differences in the cost of producing a given overall output.

  It is necessary that existing cost differences not be used as a basis for the establishment of such norms. The calculation of cost differentials is particularly essential if capital costs are fully funded by the state.

— In the Committee's opinion, the last word has not yet been said concerning the financing of special programs for atypical children. The goal should be to create adequately organized and financed school systems with enlightened leadership. Such systems would be expected to establish programs designed to meet the needs of all children and to allocate their resources accordingly.

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* We define an adequate level of expenditure in terms of the highest expenditures in all but atypical districts. In order to avoid problems associated with the present structure of school districts (elementary, secondary and unit), we take as our basis the 90th percentile of unweighted students.

The proposal requires that the state pay the *total additional costs* associated with programs for atypical children such as handicapped students, disadvantaged students and students enrolled in vocational educational programs.

— The rationale of full state funding is even more salient with respect to capital expenditures than with respect to operating expenditures.

— The proposal further requires full state assumption of transportation costs, subject to state cost studies.

— The Division of Research, Planning and Development, Office of the Superintendent of Public Instruction, should be expanded and strengthened. This Division should study both costs and outcomes and move toward conducting cost-effectiveness studies. The Office of the Superintendent of Public Instruction should both encourage and provide funds for experimental projects and programs.

— The Office of the Superintendent of Public Instruction should develop policy proposals for the implementation of full state funding.

EQUAL EXPENDITURE FOR EQUAL EFFORT

If the equal expenditure for equal effort approach to equalization is adopted as the interim financing system, the following recommendations are submitted for implementing the plan.

— The State should set a potential expenditure goal per instructional unit which may be reached by all districts at the end of the five-year period of development provided they concurrently reach the prescribed local tax effort.†

— Each district's expenditure level per instructional unit will be the proportion that its local tax rate (based upon statewide equalized assessment ratio) bears to a reasonable limit to be assigned to property tax.‡

— Local tax leeway above the established limit for the equalization goal should be limited to 15-20 percent of the maximum equalization rates. This leeway should be reviewed at the end of the five-year period.

STRAYER-HAIG

If the present Strayer-Haig approach to equalization is retained as the interim financing system, the following recommendations are submitted.

— The State of Illinois should demonstrate its commitment to equalization by moving to increase the foundation level and qualifying rates sharply this fiscal year, with the proviso that: a) school districts experiencing increases in aid receive no more than one-third of the increase in any year; and b) districts experiencing reductions in aid suffer no loss greater than one-third of the reduction in any year.

— A varying foundation level should be used.

— The percentage add-on should be increased to 50 percent for all unit districts and to 60 percent for all elementary and secondary districts. An additional 10 percent add-on should be given to unit districts with 1,000 or more WADA, secondary districts with 300 or more WADA, and elementary districts with 700 or more WADA.

— Qualifying rates should be increased to .92 percent for dual districts and 1.24 percent for unit districts.

— The flat grant should be eliminated.

— The alternative means of computation should be eliminated.

— Qualifying rates at the higher levels should *not* be mandated; that is, local districts should have leeway to establish tax rates consistent with state aid under the new formula and local attitudes toward education.

The following recommendations apply to each of the three approaches to equalization. Regardless of the general approach taken, the Committee believes that for an effective and equitable school finance system the following should be implemented.

Differential Costs

— Categorical funding of special programs should be discontinued and replaced by a system of weighting factors.

— The weighting factors (program cost differentials) should be applied to *all* of the following programs during the suggested period of development: pre-kindergarten, kindergarten, basic ('regular') programs, special education, pre-vocational education, vocational education, bilingual education and gifted education.

† It is suggested that the potential expenditure goal be established as $1,250 per instructional unit.
‡ Suggested local tax rates are $2.50 for unit districts and $1.55 for each dual district.

— For the first year, the specific weighting for each program should be based on those developed for the National Educational Finance Project, and thereafter the weighting should be based on the actual average cost in the preceding fiscal year in Illinois.
— No district should have its aid per weighted pupil unit reduced in any program. Increased aid to achieve full funding of all programs, however, should be spread proportionately over the designated five-year period of development.

Compensatory Education

— The current system of density bonus should be eliminated and replaced by a weighting for compensatory education programs.
— The compensatory education weighting factor should apply to Title I eligible students or AFDC students. The AFDC statistic is preferable.

Dual-Unit Parity

— Within a reasonable period of time, combined qualifying rates for dual districts should be set to equal the qualifying rate for unit districts in the interest of removing discriminatory access to state aid.
— The permissive tax rates should be altered to provide equivalent access to total resources between unit and dual districts.

Consolidation of Funds

— Save the Transportation, Bond and Interest, and Site and Construction Funds, all school district funds should be consolidated and tax-rate limits adjusted to correspond to limits on present funds.

Average Daily Attendance

— Within five years, funding of all educational programs should be based on Weighted Pupil Instructional Units (WPIU) rather than WADA.

Transportation

— The flat grant provision of the transportation formula should be eliminated and districts reimbursed on a 0 to 100 percent range.
— Costs for Vocational Education and Special Education transportation should be included in the general transportation formula.

Fiscal Responsibility

— All districts should be required to adopt balanced budgets.
— Districts should be prohibited from issuing teachers orders.
— The anticipatory power of districts through the issuance of tax anticipation warrants and notes should be reduced at a rate of 15 percent per year for the next five years.
— Districts should be prohibited from making the annual tax levy prior to the beginning of the fiscal year.

District Reorganization

— Careful consideration should be given to the findings of the study on school district structure and organization conducted by the Governor's Commission on Schools, Task Force on School Organization, and a workable plan of district reorganization implemented within the next two years.

CAPITAL FINANCING RECOMMENDATIONS

The wide variations in district wealth have produced great disparities in the type and quality of educational facilities available to districts around the State. To assure all Illinois students, present and future, access to physically sound and educationally useful buildings, the Committee recommends the following.

— The State should provide funds on the basis of equal expenditure level (support) for equal effort to be used to finance approved construction projects *or* a proportion of debt service costs.*
— Statewide building standards based on educational usage should be established and applied to all future school construction.

* Suggested capital facility tax rates are $.50 for unit districts and $.25 for dual districts. The $.50 rate would generate up to $250 per weighted pupil unit.

— Districts should be required to develop facility plans which can be integrated into a long-range state facility plan.

— The Office of the Superintendent of Public Instruction should provide consultative services to local districts in the development of their facilities plans.

— Consultative services should also be provided to districts by the State Office of Education during the planning stages of all construction projects.

REVENUE RECOMMENDATIONS

Administration of the Property Tax

Based on the assumption that the property tax cannot be completely eliminated as a source of revenue for education, the Committee recommends that major reform be implemented in the administration of this tax. To accomplish this reform, the following are recommended.

County Level

— Abolish township assessors and require each county board to appoint a county assessor and deputies from a list of State-certified eligibles.

— Adopt permissive legislation which would encourage small counties to merge the local assessment functions or share costs and require the smallest counties to do so.

— Appoint members of multi-county or county Boards of Review and Equalization from a list of State-certified eligibles, with each multi-county or county board covering a sufficiently large area or population to warrant the creation of a board of competent people.

— Sales ratio data, published annually and widely by the State, should be acceptable as evidence in local and state appeals, and any assessment in excess of or less than 20 percent of the median value should be made prima facie evidence of the need for relief.

— The yearly tax bill should state the true or market value of the property as appraised and recorded by the assessor and the fractional statutory level of assessment.

— Assessors should be required to maintain assessment records in accordance with some minimal land-use breakdown, e.g., single family residence, apartment, industrial, commercial, farm, etc.

— The taxpayer should be required to provide information as to the description and value of his property; the assessor should be permitted the opportunity to inspect pertinent records of taxpayers and the right of subpoena when this is denied.

State Level

— The State of Illinois should defray at least one-half of the total cost of property assessment.

— The State should expand materially, both statutorily and with resources, its assistance and supervisory duties, including: the testing and certifying of eligibles for assessors and members of Boards of Review and Equalization; conducting or coordinating courses of training and conferences; publishing manuals and handbooks; and providing appraisal assistance to local assessors.

— The State should assess privately owned public utilities and other types of large complex and difficult-to-value commercial and industrial properties.

— The assessor should be required, in accordance with standards established by the State, to publish a statement indicating the valuation methods employed by his office in valuing property.

— In those cases where a substantial portion of a local taxing jurisdiction is in more than one county, a special assessment equalization procedure should be established by the State.

— The law should be clarified as to the meaning and scope of exempt property; exempted property should be valued and listed on the assessment rolls.

— Every owner of exempt property should be required to reinstate its exempt status initially and then periodically through formal application to its respective county and the State; a scheduling procedure should be established which would permit initially at least that this be carried out over a reasonable time period.

— A State Property Tax Survey Commission or Board should be created to examine property tax issues on a continuing basis, including the legal structure, exemptions, state and local equalization and review, and other pertinent aspects of state-local tax administration.

Alternative Revenue Sources

Any significant reform of the Illinois school finance system will require a commitment of additional state funds to public education. To provide the necessary funds to public education, the Committee recommends the following.

— At least 50 percent of the increase in general state revenue should be allocated to public education for the next five years.

— At least 60 percent of the State's share of federal revenue sharing should be allocated to public education during the next five years.

If additional funds are necessary, other sources of revenue for consideration include the following.

— The State could broaden the base of the general sales tax to include other services.

— The State could commit all additional growth of the State's 1/12 net income tax rebate to counties and municipalities and reallocate this money to public education.

— The State could increase the corporate income tax rate by 1 percent and the personal income tax rate by five-eighths of 1 percent.

CHAPTER ONE

THE EQUITY PROBLEM AND BROADER SOCIAL IMPLICATIONS

The Nature of the Problem

Public education in the State of Illinois faces the same complex financing problems as public education in virtually every other state. In light of the broadly publicized lawsuits in California and Texas as well as a myriad of suits in other states, it seems apparent that the courts have begun to directly challenge the financial equity systems with which educators, finance experts, and legislators have wrestled for years. The fundamental problem is that uneven distribution of wealth, combined with inefficient or archaic school finance formulae, result in gross disparities in terms of equal access to revenue to educate children.

The Illinois Problem

In basic terms, the Illinois Problem can be expressed by noting that the funds available for education at the level of the local school district are heavily dependent upon the assessed value of property. This results in wide disparities in the assessed valuation-per-pupil (hence funds available) throughout the state. Access to revenue for education in Illinois is primarily a function of the place of one's residence. It is evident that in communities where there are significant amounts of business or commercial property and small numbers of students the assessed value is high and school money is plentiful with even low levels of effort. It is equally apparent that where there is no business or commercial property, and where houses (and large numbers of children) alone exist, the value per pupil is usually correspondingly low and school funds are often desperately short, often even with exceptional effort in terms of tax rates. Such situations are compounded when there are heavy needs for specialized services to meet the needs of deprived or disadvantaged children.

While it seems clear that a major factor in most motivation to study problems of school finance may be related to the impact of impending court decisions, it seems equally true that there is a growing concern for the fundamental issue of equity as a moral and educational issue. The charge of the Superintendent of Public Instruction to the Superintendent's Advisory Committee on School Finance, from the beginning, was to explore means of providing "equal access to educational opportunity" for every boy and girl in the State of Illinois. Viewed in this light the equity issue takes on clearly educational as well as fiscal implications. The issue may well be initially separated into two component parts. These may best be described under the headings of "Financial Equity" and "Philosophic Equity."

Financial Equity The problem of financial inequity can be easily demonstrated through analysis of recent data pertaining to the financial resources available to Illinois school districts. To modify these recognized disparities, Illinois has historically used various formulae designed to reduce to some degree the disparity between wealth and needs. The disparities, however, are so great, and the formulae in action are so limited in impact that, in fact, most of the inequities have continued and some have grown greater. It seems clear that the thrust of most recent court decisions throughout the nation is to hold that significant school revenue-access disparities within a state may violate "equal protection" clauses in either state or federal constitutions or both. If such a position is upheld by the United States Supreme Court, it will apparently be necessary for states throughout the nation to adopt means of financing schools which, for practical purposes, eliminate the disparities between districts, at least insofar as equal access to fiscal resources is concerned. It is not yet fully clear whether or not differences in actual expenditures may exist provided the only variables are such factors as "effort" or "weightings" based on special educational needs, and provided further that reasonably "equal results from equal efforts" are assured. It does seem clear, however, that the challenge is to ultimately seek means to eliminate the revenue resource differentials if, in fact, any sort of financial equity is to be achieved. "Financial Equity" implies the elimination of inherent revenue access disparities wherever they may exist.

Philosophic Equity The philosophic aspects of the equity issue often begin with debate upon the degree, if any, to which different levels of expenditures can be justified within a state. The bases for such variation might, it is argued, include factors such as "effort" or some special determination of "educational need." It appears to be a generally common premise in most existing finance formulae that there is nothing inherently unreasonable about spending increased dollar amounts per pupil on those students who have special educational needs which can only be remediated by special programs. It would not appear that major contro-

versy centers on such variations. The implications cannot, however, be overlooked. It is a fundamental philosophic issue as to whether or not "equity" requires "sameness" or "adjusted variability." Any school finance formula must face squarely the historic precedent inherent in educational programs for brain damaged, blind, deaf, or physically handicapped students or other students with severe abnormalities which result in significantly greater dollar costs than do more basic programs for educating the children with more "normal" attributes. Categorical financial support for special services, special therapies, and highly complex equipment or training necessary for such students appears to be a common pattern of variation. If this, in fact, is to continue, it relates closely to other extremely complex questions.

However easily one may accept the premise that physically handicapped students, for example, need special training and thus special dollar allocations, is it as universally accepted that there is a concomitant requirement to support compensatory education services to treat the cultural, economic, racial or social differences which are at the roots of some of the most emotional and challenging disparities in American society? Who shall make such judgments? Are they moral or legal or both? The answers to such questions will have a critical bearing on the evaluation of any present or proposed system of educational finances.

The issues of "philosophic equity" center often on the degree to which districts shall be allowed to make voluntary local decisions to spend greater or lesser amounts than might normally be established as state-wide or median figures. Basic questions abound and must be recognized. For example, does "equity" require that every school district in the state spend the *same* dollars (per weighted pupil perhaps,) or does "equity" perhaps require that every school district in the state have *equal access* to revenue, while still retaining some degree of local control in decision making? Shall the state establish minimum levels below which no district can fall in order to assure minimum basic educational standards? Shall districts be allowed to spend more than the state minimum when local taxpayers are willing to tax themselves for special purposes and special reasons? Shall such variance be unlimited or shall it be controlled by the establishment of maximums beyond which districts may not move? Shall "lighthouse" districts be encouraged or discouraged? Where shall funding for innovation and creativity be sought? What are the implications of centralized state control versus local control? Each of the questions previously enunciated have profound philosophic implications as one evaluates any given formula.

The philosophic dilemma faced in confronting the tremendously controversial question of "full state funding" versus a "combination" designed to preserve greater local control and autonomy is, in particular, a major issue of substance. There are those, for example, who hold that to have anything less than a total state educational program, fully funded by the state, is "improper" in the sense that any other system in fact tends to deny functional equality of educational opportunity to various segments of our society. Any other system is held to functionally discriminate against the poor who are usually not able to move forward toward greater local effort because of their poverty. Local option systems are also held to be inherently discriminatory toward segments of society who by the very nature of certain historic disadvantagements or oppressions may not yet have developed cultural or community aspirations at a level sufficiently high to induce practicable community effort to expand greater levels for improved educational opportunity. There are, however, opposite views held with equal vigor. All these arguments are challenged squarely by those who hold that it is a fundamental tenet of American democracy that citizens have the inviolable right to make decisions affecting their future, and that one of the most treasured areas for decision making is local participatory democracy in relation to the public school system and finance thereof. Persons holding this position might well agree that the gross disparities which result from inequitable funding procedures need to be eliminated in order to insure "equal results for equal effort." They will continue, however, to hold vigorously that American democracy demands and depends upon the right of local citizens to make local decisions with regard to the degree of effort that they are willing to make to achieve results compatible with their values and their convictions. They would hold that the risk of centralized government control and a centrally controlled and financed educational system portends either or both legislated educational mediocrity or a form of government and centralization they find anathema.

To deal with any educational finance formula designed to meet the test of court or legislative challenges, the issues of philosophic equity cannot be avoided. They are real. They are complex. They are emotion laden. They cannot, however, be bypassed or ignored. Such issues will underlie every evaluation of every plan and every option aimed toward "equity" and "equal access to educational opportunity."

The Impact of State Education Policy

Illinois is both a large and diverse state. The 1,084 operating school districts throughout the state run the spectrum from the Chicago Unit District, the large clustering of several hundred varied school districts through Chicago's suburban areas and counties, lesser metropolitan areas such as Springfield or Peoria, smaller regional trading center cities, and then the very rural school districts across expanses

of central and southern Illinois. Attitudes regarding the importance of the content of "education" may vary among these different social settings, but households generally act and voice their concerns that the concept of "quality education" is very meaningful to their lives.

The 1970 Census reports that 17 percent of Illinois' population live in "Rural Areas." The balance of the population, 83 percent, live in "Urban Areas." Many households have mobility and choice of community, hence school districts, within reasonable commuting distance from their employment. The observation that households are preferring to reside in suburban communities is confirmed by the Census data. While population throughout the State of Illinois increased by 10.2 percent between 1960 and 1970, the patterns of growth were uneven. Central cities expanded by 1.0 percent; urban fringe and suburban communities grew by 44.9 percent; and rural areas declined in population by 2.9 percent.

Local public service amenities, specifically the quality of local public schools, are a significant determinant in the household decision to move and to relocate within the various metropolitan areas. Time and again in attitudinal surveys, respondents have stated that they felt the " quality of education" was significantly different between their prior location and the school district in their present location, though within the same metropolitan area.

The Superintendent's Advisory Committee on School Finance in exploring means of providing "equal access to educational opportunity" for every boy and girl in the State of Illinois has been asked to evaluate alternative formulae for funding local public schools, one or more of which could have significant impacts on sources and levels of financial resources available to school districts. Each alternative formula by specification will have different fiscal impacts among school districts. In other words, the relative financial status among school districts will change. This differential impact among the school districts will depend on the specific recommended formulae, the magnitudes of changes in financial flows, and the recommended schedules for phasing in new school finance programs. The recommended differential changes in school spending per pupil among districts, reinforced by anticipated changes in local school taxes, may affect both rates and patterns of metropolitan development.

The effects of changing school finances therefore may have social policy ramifications beyond the local school district budget, affecting rates and patterns of residential construction, metropolitan housing inventories, employment and manpower policies, and necessitating adjustments to regional physical and social service planning projections. A mobile population means changing school capital construction requirements and also may affect other education policy objectives. The Committee is aware of these broader social ramifications from any recommended changes in the formulae or procedures to finance public elementary and secondary schools in Illinois.

Illinois State Education Policy and Individual Attitudes

We have noted that the school finance issue is controversial because two basic philosophical tenets may not be simultaneously compatible. The fiscal mechanics necessary to achieve "equal access to educational opportunity" may in the extreme conflict with the aforementioned tenet that citizens have the inviolable right to make decisions affecting their future, including decisions on residential location and on the community provision of local government services. This right to free choice becomes a reality when the personal wealth status of households or the joint wealth of the community affords the opportunity to consider options to public education, or elements of public education. The Superintendent's Advisory Committee on School Finance properly is charged to undertake a study of fiscal disparities among school districts, and to recommend changes wherever necessary to provide more equal access to educational opportunity.

The Effect of the Present General Purpose Grants-In-Aid

Previously we have stated that the general purpose grants-in-aid have had only a "limited effect" as far as the elimination of disparity among school districts is concerned. We wish now to provide some further evidence on this point. Unfortunately, there is no single method of measuring the "equalization effect" of grant-in-aid formulas. (1) A descriptive statistic used extensively in the field of economics and known variously as the "Gini Coefficient, Gini Index, and Index of Concentration" is probably as acceptable as any other, and may have some advantages over other techniques currently in use among fiscal analysis. (2) We have computed Gini coefficients for a short time series in Illinois, 1965 through 1971, and the data appear in Table 1. These numbers are purely relative, that is, they have meaning only when comparing different years, different states, or different distributions of money. The mathematical derivation of this statistic and the method of computation is given in Appendix A.

Columns one, four, and seven indicate the amount of inequality or disparity present in the fiscal system from local funding alone, that is, the expenditure disparity arising from the revenues locally raised. As these numbers become smaller there is less inequality in the system, and as they become

larger there is greater inequality. Comparing the time series for all three types of school districts we can see that disparities increased for high school districts and for elementary districts but decreased slightly for unit districts. Columns two, five, and eight show the effect of general purpose grants-in-aid. The effects of special purpose or "categorical" grants and federal grants-in-aid are not shown in these data. The method of calculation requires a different interpretation of these numbers. Here, as the numbers get larger there is a greater proportion of state funds distributed to the poorer districts. It should be remembered that throughout this analysis "poorer" is operationally defined as lower property valuation per pupil and does not reflect income, occupational composition, or any of a number of other possible socio-economic measurements.

Table 1: Equalization as Measured by the Gini Coefficient in Illinois, 1965-1971

	High School Districts			Elementary School Districts			Unit School Districts		
Year	Local Revenue (1)	Gen. Aid (2)	Combined (3)	Local Revenue (4)	Gen. Aid (5)	Combined (6)	Local Revenue (7)	Gen. Aid (8)	Combined (9)
1965	.0886	.0296	.0575	.2152	.1807	.0863	.1390	.1463	.0482
1966	.0937	.0177	.0619	.2180	.1940	.0736	.1063	.1045	.0298
1967	.0962	.0230	.0642	.2247	.2115	.0688	.0995	.1052	.0357
1968	.0914	.1177	.0636	.2267	.2041	.0647	.0937	.0940	.0385
1969	.0963	.1037	.0595	.2319	.1940	.0513	.1041	.0934	.0314
1970	.0993	.2401	.0615	.2345	.1710	.0628	.1085	.0722	.0394
1971	.1148	.1969	.0534	.2513	.1521	.0651	.1147	.0561	.0487

Different results can be observed for the three categories of school districts relative to the distribution of state general purpose grants-in-aid. For high school districts proportionally more funds have been distributed to the poorer high school districts. The elementary time series is curvilinear, but the students in the poorer districts ended up in 1971 receiving about the same share of the state general purpose funds that they did in 1965. For unit districts there has been a steady weakening of the equalization effects of the formula and the share of the state pie distributed to students in poorer districts in 1971 was less than the share distributed in 1965. Much of this trend can be attributed to the fact that the foundation level has been raised rapidly during this period of time, but the qualifying rates have not been raised proportionally. This is not an uncommon occurrence with "foundation level" or Strayer-Haig distribution systems. When this happens the students in the poorer districts usually receive a progressively smaller share of state funds with the passage of time. As has been pointed out elsewhere, high school districts are affected in a different manner by this phenomenon. (3)

Columns three, six, and nine show the combined effect of both local revenues and general state aid. The difference between columns one and three, four and six, and seven and nine, is the reduction of disparity brought about by the general purpose state aid. Again, the lower the number the less the disparity in expenditures. It is clear that general aid has reduced disparities in all three types of school districts, especially for elementary districts. That elementary districts have such a great initial disparity is to be expected. Generally, in local public finance, the amount of fiscal disparity increases as the geographic size of the special district governments decreases. Elementary districts generally cover less geographic terrain than do high school or unit districts. Columns three, six, and nine show that the general grants-in-aid have had no appreciable effect on reducing disparities among students in high school districts, and the same situation holds with regard to unit districts. Only a limited equalization trend can be documented for elementary districts. If it is therefore thought desirable to reduce expenditure differentials between the students in the poorer school districts and the students in the more affluent school districts, for any of the moral, philosophical, political or judicial reasons noted in this chapter, then it is very clear that the General Assembly must make changes in the existing general purpose distribution system.

Conclusion

Wide disparities exist in assessed property valuations to support pupils among school districts in Illinois. The range of disparities varies among regions in the state. It is true that the present state general purpose grant-in-aid system does act to reduce gross fiscal inequities and has done so, in fact, for many years. However, it is also true that there is little evidence that this equalization effect has been strengthened in recent years. To the contrary, at least for unit districts, the trend may have been to weaken the equaliza-

tion effects of the system. If fiscal disparities are to be greatly reduced then changes must be made in the present methods of distributing general purpose grants-in-aid. In the pages that follow some alternative distribution systems are investigated. These alternatives may alleviate existing resource base and tax effort disparities, but not without the concurrent possibilities of citizen response that will loop back to affect education policies and other social considerations.

NOTES AND REFERENCES

1. For discussion of this problem see National Educational Finance Project, *Alternative Programs for Financing Education*, 1971, Gainesville, Fla., especially chapter nine. See also Berke, J. S. et al., *Financing Equal Educational Opportunity*, 1972, McCutchan; and Hickrod, G. A., Chaudhari, R., and Tcheng, T., "Definition, Measurement, and Application of the Concept of Equalization in School Finance," *Occasional Papers of the Superintendent's Advisory Committee on School Finance, Volume No. 1*, 1972, OSPI, Springfield. Available also as document ED 060 544 in the ERIC system.
2. For additional illustrations of the use of the Gini coefficient in school finance research see Harrison, F. W. and McLoone, E. P., *Profiles in School Support*, 1965, USOE; Barkin, D., *The Equalizing Impact of State Aid to Education*, 1967, Washington University Institute for Urban and Regional Studies, St. Louis; Wilensky, G. R., *State Aid and Educational Opportunity*, 1970, Sage Publications, Beverly Hills, Calif.; Michelson, S., "The Political Economy of Public School Finance," in Carnoy, M., *Schooling in a Corporate Society*, 1972, McKay; Grubb, W. N. and Michelson, S., States and Schools, 1973, manuscript, Harvard Center for Educational Policy Research, Cambridge, Massachusetts.
3. Hickrod, G. A. and Chaudhari, R., "Disparities Among School Districts in Illinois and State Fiscal Policy," *Occasional Papers of the Superintendent's Advisory Committee on School Finance*, Volume No. 3, 1972, Office of Superintendent of Public Instruction, Springfield, Illinois.

CHAPTER TWO

THE FOUNDATION LEVEL — STRAYER-HAIG APPROACH

The objectives of increasing equality of educational offerings around the State of Illinois and decreasing inequality of tax effort may be met by adjusting the parameters of the existing Strayer-Haig formula for aid to the common schools. By increasing the foundation level over the present $520 and simultaneously increasing qualifying rates over the current levels, more moneys will be allocated to districts with a relatively small tax base, and less moneys to districts rich in tax potential.

A Specific Proposal

The specific proposal to be evaluated here involves: (1) an increase in the foundation level to $1050 per WADA, where WADA represents weighted average daily attendance under the current definition; (2) increase in qualifying rates to three percent for unit districts and 1.7 percent for elementary and secondary districts, qualifying rates *not* to be mandated rates; (3) continuation of the density bonus with an increase in the rate for the largest class of districts (200,000 or more in WADA) from 16 to 24 percent; (4) elimination of the flat grant; (5) consolidation of funds from nine to three; (6) elimination of the alternative means of computation; and (7) three-year period for phasing in the above changes.

The above proposal can be reduced to the following formula:

$$G = (1050 - QR \times \frac{AV}{WADA}) \text{ WADA} + (1050)DB \times \text{WADA}$$

or:

$$G = (1050 \text{ WADA} - QR \times AV) + (1050)DB \times \text{WADA}$$

where:

G = Total grant to a district
WADA = weighted average daily attendance
AV = total assessed property value in district
QR = qualifying rate, 3% for unit districts and 1.7% for elementary and secondary districts
DB = density bonus for the district

The present formula is:

$$G = (520 - QR \times \frac{AV}{WADA}) \quad (1.19 + (520)DB \times \text{WADA}$$

where the qualifying rates are 1.08 percent for unit districts and 0.84 percent for elementary and secondary districts (0.90 for districts under 100 WADA). The 1.19 factor represents legislative augmentation of aid under the present formula. The present formula allows an alternative method of computation for districts entitled to aid of less than $120 per WADA under the above formula.

Table 1 illustrates the impact of the proposed formula changes on districts ranging from $5,000 to $100,000 in assessed value per WADA. It is important to note that the qualifying rate is *not* mandated under this proposal. It merely serves to determine state aid entitlements. This implies that any district with a current total tax rate of 2.7 percent need not raise its taxes to receive the new state aid.

It is proposed that the changes be phased in over a three-year period. During each of the three years calculations for each district would be made under both the old and the proposed formulas. A district experiencing an aid increase under the new formula would receive the amount of aid under the old formula plus one-third of the increase in the first year. In the second it would receive aid under the old formula plus two-thirds of the increase. In the third year the district would receive its full entitlement under the new formula. A district losing aid would receive its old entitlement *minus* one-third of the difference between the old and new formulas in the first year, *minus* two-thirds in the second year, and only its entitlement under the new formula in the third year.

Ancillary to the formula change is a proposal to consolidate all funds, save the Bond and Interest Fund and the Site and Construction Fund, into one fund. Were this accomplished, a new tax rate limit would have to be established for the augmented fund corresponding to the tax rate limits on the funds as cur-

rently established. The Bond and Interest Fund and Site and Construction Fund probably would have to be retained as separate funds because of investor requirements for the sale of bonds. The purpose of this proposal is twofold: (1) consolidation of funds would introduce greater flexibility in fiscal decision making at the local level; and (2) the equalizing effects of state aid would be introduced into all aspects of the districts' educational program, not just current operations. It has been proposed that the State undertake a program of equalizing aid for capital expenditures. Were the funds consolidated, and transfers of aid money into the Bond and Interest Fund permitted, a degree of equalization in capital programs would be accomplished within the boundaries of the general aid formula.

The Rationale

The above proposal is consistent with the objective of introducing more tax and expenditure equality into the Illinois system of school finance. It is also consistent with the objective of retaining flexibility for local school districts to meet the wants of their citizens in provision of education for children of the district.

The proposal guarantees that any unit district willing to tax itself at a total rate of three percent can have a minimum of $1050 per WADA to spend on education. This minimum amount would be greater for districts in large urban areas that have greater problems and higher costs of education. The proposal implements the notion that a basic level of education is a right for all children of the State, but requires that districts use prudence in augmenting programs beyond the basic levels because the local districts will pay the bill for such augmentation. In other words, this program would guarantee a basic program of education throughout the State, but it would not subsidize potentially wasteful spending beyond this basic level. Because augmentation of the program beyond this level falls on taxpayers of the district, greater economy in financing education in the various districts can be expected.

It is recognized that a three (or 1.7) percent tax rate is high, but many districts throughout the state already tax themselves at this rate or higher. Furthermore, that rate is not mandated for state aid purposes, and those districts receiving increases in state aid need not increase their rate to get the aid. Those districts having a lower tax rate and which will experience reduction in aid will be forced to bring their tax rates more in line with other rates around the State if they wish to continue current program levels. These results are consistent with the objective of equalization. To the people in the latter districts the price of this proposal is high. But this is what equalization is all about.

A General Discussion

In order to understand better what such a proposal means to the various districts, consider the following fictitious cases:

Glick — The Glick Unit School District currently has $10,000 in assessed value per WADA and receives $490 per WADA in state aid. It has a total tax rate of 2.50 percent and therefore operating expenditures of $740 per WADA. Under the new program, Glick receives $577 in state aid the first year ($750 after three years). By continuing the current rate, the Glick operating expenditures could be $827 in the first year and $1000 in the third year. The Glick school board appreciates the new money, but thinks it can only spend $40 per WADA of it wisely in the first year, so it reduces Glick's tax rate to 2.10 and spends $787 in the first year. Having made plans on the base of the new money, Glick now wisely augments its program with the added moneys and holds at the 2.10 percent rate. After three years, Glick is spending $960 per WADA at the local tax rate of 2.10 percent. *Result:* Since Glick is a relatively poor district, the new program for state aid has enabled it to increase education expenditures from $740 to $960 and reduce its tax rate burden from 2.50 to 2.10 percent. Had Glick retained its 2.50 percent rate, expenditures would be $1000 per WADA after three years.

Cosmos — Cosmos is a unit school district with 20,000 in assessed value per WADA and 25,000 students in WADA, qualifying for an eight percent density bonus. Its current state aid is $390 per WADA, and under the new program Cosmos will receive $486 in the third year, or about an added $32 per year for three years. Its tax rate is 3.10 percent, providing for current operating expenditures of $1010 per WADA. Since the added money is relatively little, Cosmos uses the new money each year to cover cost increases and augment its program where possible. After three years the tax rate is still 3.10 percent and expenditures have increased to $1106 per WADA. *Result:* Cosmos is about an average district, and thus its expenditures have increased modestly, and its tax rate stayed the same.

Bucksville — Bucksville is a small wealthy suburb of Populus. Its secondary district has 80,000 in assessed valuation per student and receives $72 in state aid (alternative computation method). It has a total tax rate of 1.80 percent and spends $1512 per WADA. Under the new program Bucksville will only receive $48 per

WADA from the state in the first year, $24 in the second, and nothing after three years. In order to continue its program, Bucksville raises its tax rate to make up the lost funds. After three years, Bucksville is spending $1520 and its tax rate is 1.90 percent. Of course, if the community of Bucksville adds to the tax base so that property value per WADA grows to $4,000, then it could maintain its spending rate of $1512 without raising the tax rate. *Result:* Bucksville is a wealthy district and it loses state aid and has to tax itself more heavily to maintain its educational program.

Populus — is the largest city of the state and its unit school district has 400,000 students and an assessed value per WADA of $24,000. With the density bonus of 16 percent, it currently receives from the State $358 per WADA. It has a tax rate of 2.90 percent in order to spend $1054. Under the new program (24% density bonus included) Populus will receive $459 per WADA after three years, $392 in the first year. Because Populus has pressing problems it spends the added amount on education. After three years, Populus still has a tax rate of 2.90 percent and spends $1155 per student. *Result:* Populus is a large city above average in wealth, but with pressing problems. The new program enables Populus to spend somewhat more without raising its property tax rate.

The State Generally — The fictitious cases above are designed to illustrate the impact the new program might have on a range of school districts in the State. While the illustrations resemble actual districts, illustrative expenditure figures are somewhat lower than actual figures because no attempt was made to include the effect of the categorical aid program or federal aid.

In general, poor districts will receive more state aid. It might reasonably be expected that some of the added money will be used to augment educational programs in those districts, and some of the money will be used to reduce property tax burdens. Both results are in line with the tax and expenditure equality aspects of the *Rodriquez-Serrano* decisions.

Districts of average wealth would experience modest increases in state aid that would permit those districts to keep up with increasing demands for quality educational services without increasing tax rates. It is likely the property tax rates in those districts would remain pretty much the same.

The wealthier districts would experience modest reductions in state aid under the new program. And, it is reasonable to assume that those districts will raise tax rates slightly (from 1.80 to 1.90 in the Bucksville case above) in order to maintain their current programs.

Cost of Program and Revenue Sources

The program outlined above will require the state to increase its spending for aid to common schools by approximately $115 million over amounts that would be spent under the present program for each of the first three years under the program. The total increase after three years would be about $345 million. These amounts are modest. Indeed, the projected three-year increase in state aid is less than the projected increase of $374 million between 1969-70 and 1972-73.

The implication of the cost figures is that a state program of increased equalization as outlined above can be financed out of the normal growth in state revenues under the present tax structure. Of the projected increase of $280 million in general state revenue from revenue sharing and state tax sources between Fiscal 1973 and Fiscal 1974, only about 40 percent needs to be allocated to the common schools. This is only slightly variant from the percentage of total general revenues already allocated for this purpose. Any moneys under federal revenue sharing programs would make the financial burden even smaller.

In general, the proposed program involves relatively little added cost to the state. The reason is that the new program achieves increased equalization under the principle of a "modest leveling up". Most districts receive additional state aid, but a substantial number will experience reductions in aid. This is necessary if leveling is to occur at reasonable cost to the state. "Leveling up" involving no reductions in aid to any district would involve a very substantial added cost to the state. For example, the maximum loss in aid to any district is approximately $170 per WADA, occurring in unit districts with assessed value of $35,000 per WADA. If this amount were added to all districts (save those wealthier than $35,000 in which cases less than $170 need be added) in order to retain the same absolute amount of leveling without reducing aid to any district, the increase cost over the program as proposed would be in the neighborhood of $370 million. Even so, less *relative* leveling would occur if this were done.

Summary of Advantages and Disadvantages

The proposal described herein must be weighed against other alternatives. The two alternatives considered here are (1) full-state funding, and (2) tax effort formulas.

Advantages Over Full-State Funding

1. This proposal can readily be implemented within the present structure of school finance in Illinois. Full-state funding would require complete reshaping of education institutions from the state level down to the individual school districts.

2. This proposal would allow the various districts in the State to have a differing scope of educational program depending on the wishes of the people in the districts.

3. Because this proposal continues the principle of partial state funding, the local citizenry would probably retain greater control over the type of program offered in the various districts. Were the State legislature to appropriate all funds for education in the State, it is unlikely that citizens of local areas would have as much control over the character of their own schools.

4. This proposal is consistent with the current revenue structure of the State. Full-state funding would require institution of a statewide property tax or a major reshaping of other taxes.

5. Full-state funding with complete equalization of effort would further exacerbate problems of immigration of poor citizens from other states.

6. Under full-state funding, residents of wealthier districts, upon finding that their schools are no better than schools anywhere else in the State, might be encouraged to migrate to other states. The same people might send their children to private schools, thus eroding powerful political support in the state legislature for adequate funding of public schools.

Disadvantages Compared with Full-State Funding

1. This proposal does not do away with all inequalities in educational offering by reason of wealth differences. Assuming that political clout under a full-state funding scheme would not lead to wealth oriented allocations, a fully funded system is capable of 100 percent equality.

2. A realignment of parameters under the traditional Strayer-Haig formula does not as clearly meet the *Rodriquez-Serrano* tests for equalization of effort and educational offering.

3. The State as a whole has greater control over the scope and character of schooling provided in the various districts of the State. (This is a disadvantage of a fully-funded system to the advocates of greater local control over educational offerings.)

Advantages Over Tax Effort Formulas

1. The proposal contained herein involves lower cost to the state government than the tax effort formulas under serious consideration.

2. Tax Effort formulas may subsidize wasteful spending at the local level. For example, if a district gets $2 in aid for every $1 it provides from local effort, the district might be induced to augment programs beyond an economical level. Under the Strayer-Haig formulation embodied in this proposal, the district gets a given amount of resources, and spending beyond that level is funded entirely out of local effort.

3. This program provides a basic level of funds to a district and the education of children in the district is not as subject to the tax avoidance whims of the residents of the district. Tax-effort formulas (to the extent local tax rates are not mandated at high levels, in which case the program resembles full-state funding and little or no local leeway) have the feature that if the local district reduces its tax rate, state aid is also reduced and the educational program is correspondingly disadvantaged.

4. Unless rates are precisely mandated (no leeway in local effort, save harmless region) a tax effort formula requires state appropriations not precise as to amount. State appropriations depend on local behavior. The program outlined here is precise as to amount of state aid, and aid does not depend on local behavior.

Disadvantages Compared with Tax Effort Formulas

1. A tax effort formula is capable of providing to every district the same amount of funds for the same local tax rate. For example, it could be established so that each district with a tax rate of 2.0 percent generates $1,000 per WADA or with a tax rate of 2.5 percent generates $1,250 per WADA, *regardless of tax base*. This would seem to be true equal dollars for equal effort. Under the Strayer-Haig proposal outlined here, district resources beyond the basic level depend on the district property tax base.

2. Resource equalizing, with tax effort factor and local leeway, would seem to meet precisely the test of the *Rodriquez-Serrano* decisions.

3. A tax effort formula generates a "matching grant" rather than a block grant. Thus, it lowers the price of education in the various districts receiving aid and encourages augmentation of educational programs. For example, in a district with assessed value of $20,000 per WADA (given a guarantee of $50,000 at 2.5 percent and mandated minimum rate of 2.0 percent) an increase in rate from 2.0 to 2.1 percent would generate an additional $50 per WADA. Under the proposal outlined here, the increase in rate from 2.0 to 2.1 percent would generate only $20 per WADA for the district. (Note from comments on the advantage side above, the desirability of this aspect of a tax effort formula depends on one's view of the social usefulness of spending resulting from this kind of encouragement.)

Table 1

State Foundation Aid

Unit Districts			Elementary and Secondary Districts		
	Present* 520 — 1.08% (+19%)	Proposed 1050 — 3%		Present* 520 — .84% (+19%)	Proposed 1050 — 1.7%
Property Value / WADA	Aid / WADA	Aid / WADA	Property Value / WADA	Aid / WADA	Aid / WADA
$100,000	$ 57	$ 0	$100,000	$ 57	$ 0
80,000	66	0	80,000	76	0
60,000	88	0	60,000	109	30
50,000	105	0	50,000	132	200
40,000	132	0	40,000	205	370
30,000	234	150	30,000	308	540
20,000	361	450	20,000	412	710
10,000	491	750	10,000	515	880
5,000	555	900	5,000	567	965

* Reflects alternative method of computation and flat grant of $48.

Table 2

Resources available per WADA to District with Assessed Value of $20,000 per WADA under Comparable Strayer-Haig and Tax Effort Formula

Local Tax Rate	Strayer-Haig		Tax Effort Formula	
	Total	From State	Total	From State
2.0%	$ 900	$500	$ 800	$400
2.5%	1000	500	1000	500
3.0%	1100	500	1200	600

This point, and points 2 and 3 from the advantages of Strayer-Haig detailed above, can best be explained with Table 2. Consider a Strayer-Haig with $1,000 foundation and 2.5 percent qualifying rate (not mandated), and a tax effort formula (in the form of a resource equalizer) with guaranteed valuation of $40,000 per WADA and mandated rate of 2.0 percent with 1.0 percent leeway upward. These parameters were selected to make the two programs of comparable magnitude and the numbers round.

Note that an increase in the local rate under the tax effort formula generates more money for the districts than generated under Strayer-Haig. Note also that a decrease in rate under the tax effort formula affords the district a greater reduction in resources. In other words, a tax effort formula generates greater variability of resources with a given variability of local tax rates. A district is not rewarded under Strayer-Haig for increasing effort; nor is it penalized for reducing rates.

STRAYER-HAIG FORMULA, WITH COMPENSATORY STUDENT RECOGNITION AS A SECOND TIER

This proposal builds on to the previous Strayer-Haig recommendations by substituting a "compensatory student" element for the density bonus element.

This proposal can be reduced to the following formula:

$$G = (1050 - QR \times \frac{AV}{WADA}) WADA + 1050 (WADA) \times .3 \frac{TI}{WADA}$$

where the qualifying rate is 3 percent for unit districts and, to maintain continuity in this chapter, the qualifying rates are 1.7 percent for elementary and secondary districts.

TI are the number of compensatory, or deprived children from low income families recorded in a district under Title I of the Federal Elementary and Secondary Education Act of 1965.

The proposal therefore has two district elements or tiers, the basic foundation grant and the compensatory child element.

The Basic Foundation Element

Three major positions on allocation systems have been identified:

1. Strayer-Haig Foundation
2. Equal Support For Equal Effort
3. Full Statewide Equalization

The proposed formula above is a variation of the Strayer-Haig Foundation approach. The basic foundation element is a "leveling up" of State general aid moneys. Most school districts in the lowest two quartiles of assessed valulation wealth base would receive additional state aid over the three-year phase-in period. School districts in the wealthiest quartile would lose their guaranteed minimum flat grant.

Advantages of Strayer-Haig, with District Compensatory Student Tier

1. No mandated property tax rates.
2. No mandated ceiling on local school district spending.
3. No mandated uniform spending per pupil.
4. No distortion of the local school district "tax-price" above the Foundation with Qualifying Rate state aid.

Distortion to local spending decisions can occur two ways under Equal Support For Equal Effort. First, school districts with a relatively low present tax effort factor will be encouraged to expand. If such a district receives $2 in state general aid for every $1 of additional local tax dollars, then the marginal "tax-price" is $.33 for $1 of realized incremental education moneys. Second, some Equal Support For Equal Effort proposals require more affluent school districts to contribute directly to the support of less-affluent districts—the so-called Robin Hood feature. The marginal "tax-price" of the affluent school districts is greater than $1 to provide an additional $1 through the local school district budget. One alternative for affluent school districts facing adverse "tax-prices" is to form conduits to provide supplemental educational services outside the specific school district budget.

Disadvantages of Strayer-Haig Foundation Element

1. Does not assure all districts the same amount of funds for the same local tax effort.
2. Absence of automatic flexibility. The parameters of the Strayer-Haig element (and the Compensatory Student element) must be reexamined annually for applicability to changing edutional needs. This is identified as a disadvantage.

The Compensatory Child Element, with a Weighting of Compensatory Pupils at 1.3 Per Qualified Pupil

This proposal substitutes a compensatory child element for the density bonus factor.

The compensatory child element follows the rationale in Title I of the Federal Elementary and Secondary Education Act of 1965. Title I originally was designed as a Federal categorical aid program intended to benefit a target population—educationally disadvantaged children from low income households. Federal funds under Title I totaled $61 million, or 40 percent of total federal aid for Illinois education. The federal program is designed on a national level, to provide guaranteed federal minimum supplementary fiscal assistance to school districts with children from poverty households. The State of Illinois in its commitment to equal access to quality education can supplement the minimum adequate support element of the general state aid formula by directly assisting schools that educate deprived children from low income families.

The present General State Aid Formula recognizes that children from low income families are disadvantaged, and the formula was amended in 1970-71 to include a Density Bonus. The principle underlying the Density Bonus was that districts with 10,000 or more district weighted average daily attendance (DWADA) would have a greater incidence of pupils with exceptional educational needs. The state in 1971-72 provided additional moneys to 26 eligible districts under the Density Bonus.

Illinois school districts under this proposal explicitly recognizes Title I children and distributes moneys on the basis of the number of such children in each district. Districts ought to be required to spend these additional moneys in the attendance centers of the Title I pupils, and annual audits can be required. No other restrictions ought to be placed on district use of the Compensatory Student moneys, however, as this is an element of the proposed General State Aid Formula.

Advantages of Compensatory Student Element

1. Provides for greater resource equality than the proposed Strayer-Haig base element alone. This is essentially accomplished by a grant approach.
2. Specific acknowledgment of the disadvantages of poverty in the General State Aid formula and in the statewide resource distribution of school moneys. A fiscal alliance may be formed between the urban poor and the rural poor.

Disadvantages of Compensatory Student Element

1. The use of Title I specifications of deprived children ties the State of Illinois to Federal standards.
2. No additional allowance is made for concentrations of Title I pupils in pockets of poverty. The proposed formula can be further amended to include:

   $$\frac{\text{Percent TI in District WADA}}{\text{Percent TI in Statewide WADA}}$$

   Any further amendments are at the expense of increased formula complexity.
3. Some moderately wealthy school districts may receive State moneys under the Compensatory Student element because of the presence of Title I pupils. The number of school districts in this category has been reduced, however, by linking both the Strayer-Haig base element and the Compensatory Student element into a single equation.

Table 3

Fiscal Impact of Strayer-Haig Base, with Second Tier 1.3 Compensatory Student Recognition

Effect on Test Districts:

District	71-72 WADA	72-73 Title I Pupils	Present Allocation	Proposed Allocation	Percent Change
Salt Creek	1,101.03	35	$ 182,703.09	$ 229,560.22	25.65
Westfield	173.12	30	60,492.00	79,641.51	31.66
Wood Dale	1,446.18	54	610,644.65	759,839.36	24.43
Oak Park—River Forest	5,160.43	226	552,866.27	394,150.40	—29.00
Oak Lawn	3,411.01	176	732,548.49	923,622.05	26.00
Peotone	1,336.09	114	362,279.84	366,849.57	1.26
Chicago	512,754.09	249,791	197,086,961.04	223,528,941.08	13.00
Champaign	10,870.48	1,556	3,851,229.49	4,210,037.99	9.00
Edwardsville	5,289.75	404	2,188,301.62	2,528,360.82	15.00
STATE TOTAL		426,222			

Total additional state costs, with a three-year phase-in period during which school districts would gain or lose one-third of changed entitlements each year: Fiscal 1973-74 $130,000,000.

STATE AID ALLOCATION FOR 1973-1974

Assumptions

The Present Allocation System

If Illinois were in a position of starting anew in developing and implementing a school finance plan, few people would recommend our present system. A new system would be far easier to develop if the present system could be erased and a new structure instituted. However, if this would occur, much that is

sound would be lost. Due to the complexity of the current Illinois system, it is far easier to retain the features in the present formula which provide adequacy and equity and to direct new resources toward the most urgent educational problems. Other changes will be required beyond Fiscal 1974, but the following proposed changes for 1973-1974 are sound and fiscally prudent.

Equality of Educational Opportunity

Recent court cases have been addressed to this vital issue. Currently, the United States Supreme Court is hearing the Texas Case (Rodriquez et al v. San Antonio Independent School District). Illinois would have to prove that the differences in spending are necessary to promote a compelling State interest if the "strict scrutiny" test, the standard used in Texas, California, New Jersey, and Minnesota, is applied. As you may surmise, meeting this test in Illinois would place everything up for grabs. A more lenient interpretation by the courts may be one that challenges the plaintiffs to prove that a state's present funding system is not a valid one. Even ignoring court decisions, equal access to educational opportunity is not being provided and the State must initiate reform which reduces or eliminates present inequities.

Equal Dollars for Every Scholar

The California Supreme Court did not say that this situation must prevail. Noteworthy school finance studies conducted by the National Educational Finance Project, the New York Fleischmann Commission, and the President's Commission on School Finance recommended that cost differentials be applied to recognize the higher costs in certain geographical areas and higher costs associated with educational needs of pupils. The extent of local resources allowable beyond the state support level is not settled. A practical approach to any reform is that it be phased in over a period of years. Otherwise, the implementation cost is so great that the State could not fund it. Stabilization and/or reduction of resources to some districts and too great an increase in resources in other districts is unwarranted.

Reducing expenditure ranges in the State will not be accepted without opposition. We could experience a reversal in local control. Currently, low wealth districts do not have much local control. They operate the most economical program possible and have few options available to them. On the other hand, wealthy districts have sufficient resources to allow them greater flexibility in their decision making.

By generalizing, reducing wealthy districts' resources and increasing poor districts' resources pushes the pendulum the other way—wealthy districts would be restricted and poor districts would have greater flexibility in their decision making.

The Present Situation in Illinois

An analysis of the 1972-73 State Aid Formula indicates a number of factors could be amended to bring about both greater equity and more uniformity in the treatment of districts. Several features in the present State Aid Law, some significant, some of minimal impact, need to be altered or completely eliminated to foster a more equitable treatment of pupils, attendance centers, and school districts. They include the two key variables in the Formula: how to count pupils and how to measure district wealth. The present State Aid Formula Law is the result of major amendments made in Fiscal 1970, 1971, 1972, and 1973. They include formula changes in weighting, qualifying tax rates, the density factor, the add-on factor, eligibility for filing supplementary claims, and which WADA is used in determining the actual State aid entitlement.

Increases in school district expenditures have been occurring for years. During the past few years, the percent of state support has increased with the exception of Fiscal Year 1972 (see Table 4).

Table 4

State Support Compared to Total State and Local District Revenues
1968-1969 through 1972-1973
(in millions)

School Year	State Support	Total Revenues	Percent State Support
1968-1969	$ 516.6	$1,744.9	29.6
1969-1970	787.0	2,438.4	32.3
1970-1971	954.7	2,256.1	42.3
1971-1972	1,028.7	2,537.3 est.	40.5 est.
1972-1973	1,161.8	2,822.3 est.	41.2 est.

As district expenditures have increased, the difference in the increase not provided through state funding has been obtained from local sources, predominantly from property taxes. Thus, taxing bodies were greatly concerned about the tax freeze, a ceiling on property tax extensions, proposed during the 77th Illinois General Assembly. It would have stabilized or reduced district resources unless the State provided replacement for the tax revenue losses during the proposed freeze period. Under the Illinois funding system, a school district's wealth, as measured by assessed valuation per pupil, is a significant factor in determining school district expenditures. In most instances, wealthy districts have higher expenditures per pupil than the less affluent districts. The range in operating expenditures in Illinois school districts was from a low of approximately $500 per pupil to more than $2,500 per pupil in 1970-1971. A similar situation exists during 1972-1973.

There is considerable equalization in the present state aid formula for educational fund revenues. That is, rich districts receive less state aid per pupil than poor districts but the tax rates in general in wealthy districts are less than the tax rates in poor districts. In essence, wealthy districts may provide a quality program, as measured by district revenues available, with less effort, as measured by tax rate, than poor districts. This situation is in direct conflict with the *Serrano* principle—a child's education shall not be a function of the wealth of an individual school district, but dependent upon the wealth of the state as a whole. There are those who assert that quality education is not correlated to expenditures, but others maintain that if this is true, let the pupils in the low wealth, low expenditure districts undergo this experience.

The present $520 foundation level plus a 19 percent increase in the state aid allocation per WADA pupil provides a different foundation level for each district, except for the 17 flat grant districts. This occurs because the 19 percent is applied to the special equalization amount (the foundation level minus the qualifying amount) which varies depending on a district's assessed valuation.

The allocation system does provide significant equalization but is inadequate when limited to the educational fund and is completely deficient in providing the necessary resources for districts when all operating expenditures are included. The present varying foundation level is considerably under the 1970-1971 State average operating expenditure per pupil. The average operating expenditure per ADA pupil in the State for Fiscal 1971 was: elementary districts, $878; secondary districts, $1,385; unit districts, $1,067, and Chicago District Number 299, $1,240. In effect, the state foundation level is a floor which contributes toward the wide range of expenditure levels prevailing in the State. The fact remains that as the State's share of support decreases, the wealth of a district becomes the determining factor in per pupil spending and this creates and contributes to inadequate and inequitable funding of the schools.

Variances in expenditures occur to a considerable extent within districts as well as between districts. Districts should implement expenditure plans which result in an equitable and comparable allocation of moneys among attendance centers within each school district.

Options Available to the State

A plan to improve equity in financing must attack the problem from both sides: the state aid side and the local tax revenue and expenditure side. The problem of reducing disparities among districts cannot be solved through a linear approach. The following statement may clarify the point:

> Let us assume that the State adopts three educational finance policy objectives: (1) local option to make expenditures, without limit, for educational purposes, (2) State protection, that is, not legislating an allocation system which the State could not fund or if it did it would bankrupt the State, and (3) equity, such as has been proposed through power equalizing systems which provide districts equal revenues per pupil when equal tax rates are extended.
>
> An examination of these three objectives shows that any two are feasible, whereas the three objectives wher considered together are incompatible. If objective 1 is adopted—local option to make expenditures, without limit and 3—equity, the power equalizing approach, then 2—State protection does not exist. If 2—the State budget is protected and 3—equity prevails, then 1—the local option to raise expenditures above a State mandated maximum is lost. If 2—the State budget is guarded and 1—local option is allowed, then 3—equity, the ability of all districts to have access to equal resources per pupil is abandoned. The latter option with the expectation that the State will make a transition over a minimum three-year period to approach a system which would have a chance of meeting the *Serrano* principle.

The Need for Increased State Support

The deteriorating financial position of many Illinois school districts continues. The spiraling costs of education are being partially absorbed by the State but more than one-half are annually transferred directly to the local property taxpayer and/or indirectly to the district through deficit financing. The new Illinois

Constitution provision that all personal property taxes be abolished by January 1, 1979, is already underway through the 1970 statewide referenda which abolished the paying of personal property taxes by individuals. The legality of this referendum is currently being contested in the U.S. Supreme Court. A ruling should be issued in the immediate future.

Changes in the state support method should be legislated which: 1) increase the state dollar amount; 2) increase the state percentage amount; 3) reduce the expenditure range between districts by enabling expenditures to increase more rapidly in poorer districts than wealthy districts; 4) eliminate the technical kinds of inequities in the state aid formula; 5) place a greater emphasis on educational need.

More changes are urgently needed but a major overhaul for 1973-1974 would call for a significant increase in State support, a revolution in the present method of allocating State support which would be extremely beneficial to many districts but catastrophic for some districts, or a complete reorganization of school districts in Illinois.

The School Business Management Task Force Report recommended that all districts with less than 1,000 pupils in average daily attendance be reorganized with or into larger districts. It now appears that the last hope for district reorganization will occur with the formation of the State Board of Education. Hopefully, the Illinois General Assembly will deem it essential that the State Board be given powers including school district reorganization. Ironically, the major increases in State support to many districts in the last five years has kept many small low wealth districts operating. Even a state endowed with as many resources as Illinois cannot support 1,100 districts if the State accepts its constitutional mandate of primary responsibility for financing public education.

Illinois Property Tax Equality and Equity in Spending

School district tax rates extended in 1971 ranged from a low of .4362 percent to 4.7800 percent per $100 of equalized or assessed valuation. The lowest total educational tax rate was in an elementary district with $355,386 assessed valuation per pupil in average daily attendance. The highest tax rate was in a unit district with $5,875 assessed valuation per pupil. Parent selection of residence and accidents of school district boundaries have tremendous effects on revenues available per pupil for education.

A number of proposals have been made for a statewide property tax rate for the common schools to overcome some of the discrepancies in rates and assessed valuation. This proposed tax rate would increase taxes in high wealth districts with low tax rates and decrease taxes in some low wealth districts with high tax rates. This recommendation appears to be sound but it is fraught with danger. Hopefully, if a recommendation of this type becomes law, it would be phased in over three to five-year period. As a generalization, the proposed statewide property tax would provide tax relief in the suburbs while increasing taxes in the cities and rural areas.

Recommendations

Formula Changes

1. *Increase the add-on percent from the present 19 to 50 percent in all unit districts and to 60 percent in all high school and all elementary districts.* An additional 10 percent add-on to be granted to unit districts with 1,000 or more WADA, high school districts with 300 or more WADA, and elementary districts with 700 or more WADA.

This recommendation is consistent with earlier statements related to the dire need for school district reorganization within the State. As indicated earlier, with the exception of the 17 flat grant districts, the State has a different foundation level for each district, and the poorer the district, the higher the foundation level. This is a good principle and should be retained in the law. Increasing the foundation level in poor districts to the state average expenditure level would increase the opportunity for tax relief.

2. *The law should be amended to allow districts to record general State aid revenue in the following funds: Educational; Operations, Building, and Maintenance; Transportation; and Municipal Retirement.*

For all practical purposes, school districts through the local property tax provide the total resources for the Operations-Building-Maintenance, Municipal Retirement, and Facilities (Bond and Interest, Rent, and Capital Improvements) Funds. The proposed amendment to the Capital Development Board Act provides resources to districts on a limited equalization basis. Therefore, capital funds should not be included in the general State aid formula.

3. *Equalize educational expenditures within districts.*

Essentially this is the Federal comparability regulation which requires that a district allocate non-Federal revenues with no more than a five percent variance per pupil among attendance centers.

4. *Provide an additional .3 weighting for the Title I eligible pupil.*

This may not be the best criterion, but research shows a high positive correlation between family income and school achievement. In the final analysis that is the purpose of the educational dollar—to place it where it is needed most. By placing the .3 weighting in the formula and applying the percentage add-on, poor districts would receive increased State support. Districts should be required to spend these moneys in the attendance centers of the Title I pupils according to an approved plan. Annual evaluations could be required. The present density bonus in the Illinois Formula should be abolished. There is no sound basis for its existence except that school districts with large enrollments are generally in urban areas which experience a concentration of disadvantaged youths. Only 27 districts will receive density aid during 1972-1973, whereas the addition of the .3 weighting for Title I eligibles would affect more than 1,000 districts.

Preferably, an Illinois statistic, Aid For Dependent Children (AFDC), should be used in recognizing educational need. This pupil count is more current than census data used in determining Title I eligibles. However, the formula projections included in Table 6 are based on 1972-1973 Title I data.

5. *Weighting for exceptional children.* A weighting should be included for exceptional children. During 1973-1974 hard data should be collected by districts which would be filed in June 1974 for inclusion in the weighting and state aid formula for 1974-1975. Placing special education reimbursement under an equalization formula would help in eliminating the range in expenditure between the wealthy and poor districts. The State is committed to funding for handicapped children (Section 14-13.01) in Fiscal 1974 according to the 1972-1973 Law. Amending out Section 14-13.01 during the 1973 Session of the General Assembly and weighting these pupils for Fiscal Year 1975 is a practical transition method from categorical funding to general aid funding. Additional weighting should be developed and included in the general state aid formula for vocational education and bilingual pupils. This is at least two or three years in the future, but as good data are captured, weighting for these pupils should be included in the Formula. Again, it would provide more equalization among districts and reduce expenditure ranges. Most of the present funding for categorical aid programs is on a nonequalizing basis which contributes to the expenditure ranges between districts.

6. *Pupil transportation.* State reimbursement for the transportation of regular pupils is on an equalization basis. Increased equalization would occur if the flat grant provision is eliminated from the formula and districts are reimbursed on a 0 to 100 percent range. Vocational education and special education transportation approved costs should be included in the transportation formula. This would provide low wealth districts with an opportunity for tax relief and would tend to reduce the range in operating expenditures.

7. *ADA vs. ADM.* The State should stay with ADA. Pupil data for 1972-1973 are being collected by the local districts on an ADA basis. If the 1973-1974 State Aid Bill is passed in June 1973 and signed into Law in August of 1973, all 1973-1974 payments would have to be made using the 1972-1973 ADA data as submitted by the local districts in June, 1973, until each district submitted ADM data for 1972-1973. This would place a major burden on the local districts. The present State Aid Claim Law allows a district to use the best six months' ADA during the school term. Legislation amending Section 18-8 should be enacted to allow districts to use the first calendar month's ADA in computing the State aid claim amount. Districts experiencing ADA growth during the school term could use the last month's ADA. In addition, State aid claim auditing requirements by OSPI Audit Section would be greatly reduced.

8. *Pupil weighting.* The present .5 weighting for kindergarten pupils should be increased. However, counting Title I eligible pupils an additional .3 weighting does provide increased revenues to districts on the same basis as 1-12 pupils although the educational costs for kindergarten pupils are limited to one-half day of pupil instruction. In addition, serious consideration should be given for State funding of all pre-kindergarten pupils.

9. *Limit on State aid increases.* In order to provide orderly increases in aid each district should be limited to a maximum 20 percent increase per year over the base year 1972-1973.

10. *Restrictions on deficit financing.* A number of Illinois districts are funding a portion of the current year's operating expense through deficit financing. Many districts have short-term debt at a level which would be a major deterrent to the State in any effort to move toward full state funding. Legislation should be enacted which (1) abolishes the provision for Teachers' Orders, (2) reduces the anticipatory power of districts through the issuance of tax anticipation warrants and notes from the present 75 percent maximum through a 15 percent reduction each year over a five-year period, (3) abolishes the provision of making the annual tax levy prior to the beginning of a district's fiscal year, and (4) require all districts to adopt a budget with projected revenues equal to or in excess of budgeted expenditures.

11. *Stabilize State aid payments.* Many districts annually experience State aid overpayments because estimated payments are made using assessed valuation and weighted average daily attendance data that are updated a year later when the actual State aid entitlement is calculated. The Law should be amended to

allow the estimated claim to stand unless the district would receive more aid by using later assessed valuation and attendance data. This amendment would protect growth districts and districts that experience major fluctuations in assessed valuation and/or ADA losses.

12. *Changes in the qualifying tax rates.* The qualifying tax rate for all dual districts should be increased to .92 percent, the present maximum without referendum, and to 1.24 percent in unit districts. Increasing the qualifying tax rate provides greater equalization. The tax rate beyond the qualifying tax rate is eliminated in dual districts except where the electors have approved a higher tax rate. This action would contribute to reducing the expenditure range between districts. Furthermore, by increasing the qualifying tax rate by .08 percent in most dual districts and .16 percent in unit districts would reduce the State's share under the 1972-1973 State Aid Formula by approximately $75 million. This potential State saving is incorporated into the proposed 1973-1974 allocation system on a more equalized basis.

13. *Increase State support to dual districts.* It is a truism that the State Aid Formula is more advantageous to unit districts when compared to dual district benefits. The State for Fiscal Years 1972 and 1973 amended the dual district qualifying tax rate to a lower level which is nonequalizing, that is, high wealth districts received greater benefits than low wealth districts. Generally, high school districts received greater benefits than elementary districts from a .01 percent reduction in the qualifying tax rate. A greater percent add-on for dual districts than for unit districts would recognize on an equitable basis the dual district disadvantage in the state aid formula.

14. *Alter the permissive tax rates.* Although dual districts on the average receive less general State aid per pupil than unit districts, permissive tax rates granted to them by the General Assembly allow dual districts access to total resources in excess of unit districts. As general State aid is increased for dual districts, parity should be obtained on tax rates which would provide tax relief and reduce the expenditure range. Table 5 shows some significant tax rates applicable to 1972 levies and recommended amendments to achieve greater tax rate parity among districts.

Table 5

Tax Rate Analysis

Levy	Tax Rates — Duals	Tax Rates — Unit	Recommended Elem.	Recommended High School	Recommended Unit
Educational	.92%	1.60%	.92%	.92%	1.60%
Operation, Building and Maintenance	.25	.375	.25	.125	.375
Transportation	.12	.12	.08	.04	.12
Working Cash	.05	.05	.04	.02	.06
Fire Prevention and Safety	.05	.05	.04	.02	.06
Total	1.39	2.195	1.33	1.125	2.215
Comparison	2.78 vs.	2.195	2.455	vs.	2.215

As previously indicated, a greater percent add-on for dual districts would assist them in obtaining comparable State support per pupil with unit districts. In addition, this recommendation would contribute toward a reduction in the range of expenditures among districts of the same type and among all districts within the State.

15. *Transition procedures.* Recommendations made above during a transition period toward greater State funding, would have varying and significant impact on many districts. It is recommended that for 1973-1974 no district would receive less than the 1972-1973 actual general State aid per ADA pupil amount. This save harmless clause is a political necessity to reduce opposition to the proposed funding system and to protect the affected districts.

Effects and Summary

The proposed changes to the state aid formula for Fiscal Year 1974 are summarized in Table 6. Cost data are shown for 1972-1973 and projected costs for the proposed system.

The best estimate at this time (January 1973) is that general state aid overpayments to local districts during 1972-1973 will be approximately $55 million. Amending the 1972-1973 State Aid Law to allow districts to use the most advantageous data; 1970 assessed valuation and 1971-1972 WADA or 1971 assessed

valuation and 1972-1973 WADA would eliminate these overpayments except for some of the districts which filed supplementary State aid claims. Enacting legislation authorizing districts to use the WADA applicable to the estimated claim or actual claim reduces the adjustment to those districts experiencing WADA losses.

The recommendations move toward several important goals. By increasing state support to the poorer districts, the costs of education would generally be leveled up. Increasing the qualifying tax rate provides greater equalization without increasing the tax rate except in low efforts districts. Amending out the density factor and substituting the weighting for Title I eligible pupils is an improved method of recognizing educational need. Amending out the alternate method and flat grant features of the Formula provides more aid for low wealth districts and tends to reduce the range in district expenditures. Maintaining and increasing the add-on feature of the Formula provides additional monies on a more equitable basis to districts which could aid poor districts in providing tax relief and/or reducing the range in expenditures. The limitation of a maximum 20 percent increase in general State aid per ADA pupil and the save harmless provision insures an orderly transition to the proposed allocation system. Restrictions on deficit financing are intended to mandate that districts operate on a more stable fiscal position.

Table 6
Estimated Total Cost of the Proposal
1973-1974 (in millions)

Formula Elements	Estimated 72-73 Claim	Projected 73-74 Claim
1. Basic Formula	$585.3m	$590.3
2. Weighting .3 for Title I eligibles	NA	Inc. above
3. Density Factor	54.2	NA
4. Alternate Method	24.4	NA
5. Flat Grant	.3	NA
6. Save Harmless	NA	
7. Percent Add-on	115.9*	333.0†
Total Cost	780.1	923.3‡

* 19 percent for all districts.
† 50 percent for unit districts 1,000 WADA, 60 percent for unit districts with 1,000 or more WADA; 60 percent for high school districts with 300 WADA and elementary districts with 700 WADA; 70 percent for high school districts with 300 or more WADA and elementary districts with 700 or more WADA.
‡ Districts are limited to a maximum increase of 20 percent over 1972-1973 funding.

There are a number of formula elements included in the proposal and some work positively and some work negatively; however, the general direction is one of improved fiscal policy by the State. A number of study commissions on the national and state level have made recommendations and/or are in the process of making recommendations. Illinois is one of the many states with a financing system which is highly suspect. This is designed to move toward reform within the framework of the present formula. The speed with which changes are implemented will be decided in the political arena with a gentle push or a giant shove by the courts.

Effect of Proposal on Test Districts

	72-73 Formula	73-74 Proposed Formula	Percent Change
Salt Creek (E.—DuPage)	182,703.09	202,447.74	10.80
Westfield (E.—Clark)	60,492.00	72,590.40	20.00
Wood Dale (E.—DuPage)	610,644.65	732,773.58	20.00
Oak Park — RF (S.—Cook)	552,866.27	552,866.27	0.0
Oak Lawn (S.—Cook)	732,548.49	879,058.18	20.00
Peotone (U.—Will)	362,279.88	423,030.75	16.76
Chicago (U.—Cook)	197,086,961.04	236,504,353.24	20.00
Champaign (U.—Champ.)	3,851,229.49	4,621,475.38	20.00
Edwardsville (U.—Madison)	2,188,301.62	2,625,961.94	20.00

Estimated Cost in 73-74: $143.2m
(New Dollars)

CHAPTER THREE

EQUAL EXPENDITURE FOR EQUAL EFFORT

The public conscience has been struggling for some time with three critical issues in the financing of public schools: (1) wide variation among communities in local taxable wealth to support schools, (2) variation in local tax effort (burden) to support schools, and (3) variation in expenditures resulting from the state's primary dependence on the local property tax base.

State finance systems have not been modified to keep pace with the developing concept of equality of educational opportunity for every individual regardless of the community in which he (she) happens to live. The recent court cases have brought these issues to light for quick redress. We are not certain at this time just what role the courts will play in bringing about change, the speed of that change, and its fundamental nature. For the present this Committee assumes that states will not be pressured into hasty and ill-designed changes either by court action or by other social forces.

If indeed it becomes clear, as some students of finance have perceived for several years, that citizens want greater equalization of educational opportunity at the optimum level of quality rather than the minimum, and greater equity in the burden of taxes, there is professional expertise from long years of research in this field to design fiscal systems to accomplish these ends.

While changes cannot be wrought overnight, it is equally clear that rational and resolute steps of longer strides, perhaps unparalleled in our history, may be necessary within the next decade or less. In the preceding chapter the equalized minimum or foundation approach has been described as one alternative. This has been the traditional approach which has been developed to varying levels relative to the highest expenditure within the respective states. For example, in Illinois in 1970-71 the foundation of $520 per pupil was only 39 percent of the highest expenditure in the unit districts, 24 percent in elementary districts, and 30 percent in high school districts.

The foundation approach is based on the theory that the state will guarantee a minimum which is presumed to put the district of least taxable wealth per pupil within reach of an adequate support if the citizens of the district are willing to exercise their local leeway and raise additional local funds.

In practice, foundation levels have always been too low for this objective. Some communities have extended their local tax effort far beyond others. The range among districts in rates of property taxes for current expenditures in 1970-71 was from $0.80 to $3.09 in unit districts, $0.36 to $2.68 in elementary districts, and $0.67 to $2.33 in high school districts. Some fifteen years ago there was a high inverse correlation between local tax wealth and tax rates. In the last decade costs have risen so rapidly that the tax rates are far less inversely correlated with local wealth than formerly. Many of the high tax rates today are found in districts within high wealth categories.

Theoretically, this foundation approach could lead ultimately, through gradually increasing the foundation level and concurrently reducing the local leeway, to an equalized expenditure level and an equalized local tax rate.

Given these variations the current dilemma is how to bring about greater equalization of *tax effort* and *expenditure per unit of educational need.* There is another approach which may have distinct advantages over the former, particularly for those who value the preservation of some local responsibility in determining educational objectives and the residual fiscal decisions. THIS APPROACH CALLS FOR STATE AND LOCAL SHARING BASED ON THE TOTAL CURRENT EXPENDITURE LEVEL RATHER THAN THE FOUNDATION, WITH THE EXPENDITURE LEVEL OF THE DISTRICT DETERMINED BY ITS LOCAL TAX EFFORT AND NOT ITS TAXABLE WEALTH.

The Process of Equalizing

There are two big issues confronting Illinois, and other states as well, as steps are taken to equalize tax effort and expenditure level. First, will some districts be leveled down and others up? Second, will all be leveled upward? This Committee believes that the vast majority of people will favor a process of leveling upward, without reducing the expenditure in any districts. There may be instances of high tax effort where some reduction in effort *would be warranted.*

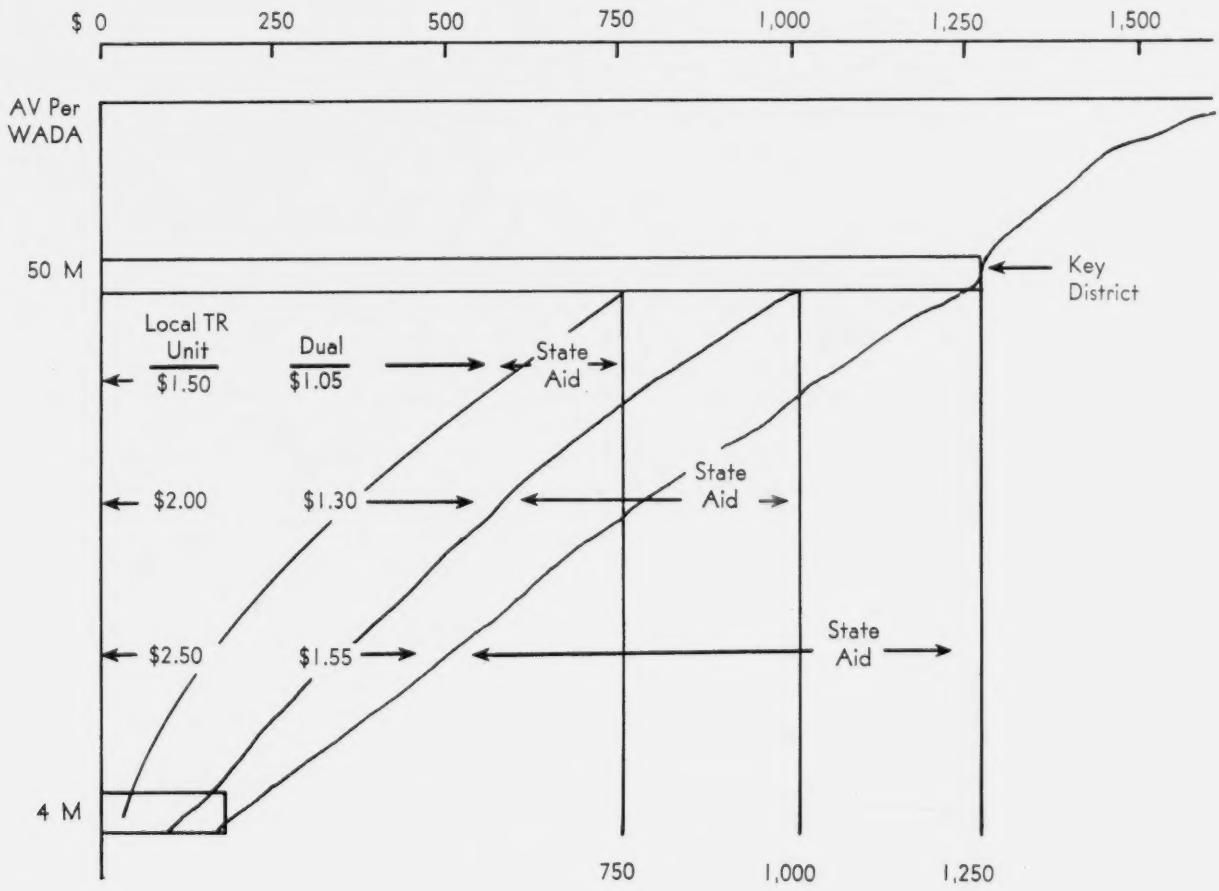
Chart 1 helps to illustrate this process of gradually moving the local tax effort upward to some prescribed level that would be considered a reasonable one for complete equalization of the expenditure level, which also would be specified. We have made an estimate of $2.50 as the tax effort to be pegged

for unit districts and $1.55 for dual districts. The latter figure is selected by taking one-half of $2.50 and adding 30 cents which is the incentive in the present state aid law ($1.68 minus $1.08) for consolidation into unit districts. These tax rates are for current operating expenses. They exclude capital outlay and debt service. If this incentive were eliminated, the equivalent rate in dual districts would be $1.25. If the present 30 cent incentive is retained, the comparable rate of $1.55 for each dual district is based on the proportions of local funds raised in these districts in 1970-71: $275.9 million in high school districts and $280.3 million in elementary districts.

Chart I

Equalizing Process

Expenditure Per WADA



(1c increase in TR = $5.00 expenditure per WADA in unit districts and $10.00 per WADA in dual districts)

The expenditure level of $1,250 per WADA is chosen for this illustration because this figure is only 28 percent above the state average per WADA ($973) in 1970-71 and exceeded by only 2 unit districts — 14 elementary districts and 14 high school districts. Thus this figure of $1,250 appears to be a reasonable one to serve as a potential goal for leveling most districts upward.

The combination of this potential expenditure goal and the tax rate of $2.50 produces a key district of $50,000 assessed valuation per pupil (WADA) in unit districts, $80,645 per WADA in high school and elementary districts as the breaking points for equalization. Districts with assessed values per WADA above these amounts would receive no equalization. They might be given flat grant aid.

To illustrate how the process works the state might set a minimum level of local tax, such as $1.50 ($1.05 for dual districts) which is believed to be reasonable as a beginning. At $1.50 local tax a unit district ($1.05 in a dual district) would generate enough state aid to reach an expenditure level of $750 per WADA. For each additional increase of one cent in the local tax rate the unit district would increase its expenditure level $5.00 per WADA until limits of $2.50 tax and $1,250 per WADA expenditure level are reached. In dual districts the comparable increases would be $10 for each one cent increase in tax up to $1.55 tax limit and $1,250 per WADA.

We shall show later the total amount of additional state funds needed to equalize tax rates at $2.50 (3.10 in communities with dual districts) and the corresponding expenditure level of $1,250 per WADA assuming the same amounts of federal funds as shown in that year. Then, we shall illustrate how the additional amounts of state funds could be spread over a period of time to reach such a twin-goal of equalization, say five or six years, depending on increases of state and local funds in 1972-73 above the state funds shown here for 1971-72 as applied to other data for 1970-71.

To illustrate this approach for resolving the equalization dilemma we shall start with the status of financial support in 1970-71.

Status of Financial Support in 1970-71

The status of support is illustrated by profiles of available revenues for current operating expenses for the three general types of school districts: unit, elementary, and high school. The basis of analysis is the WADA (weighted average daily attendance of pupils) used in the state aid formula for 1970-71.

Districts have been listed from the highest to the lowest average amount of assessed valuation of taxable property per WADA. Next they are grouped into deciles (tenths of the total number of districts of each type). Among the unit districts, Chicago is shown separately because of its size. Then, averages are computed for each decile.

Table 1 shows the data for Chicago and each decile group of the unit districts. For example, the average assessed valuation (AV) per WADA for decile X (the highest) is $48,760. The district with highest AV per WADA in this group has $96,900. The average AV per WADA for decile I (the lowest) is $10,536. The district with lowest AV per WADA in this group has $3,500. Thus the range in AV per WADA among unit districts in 1970-71 is 28 to 1. The median value is $22,000 per WADA.

Table 1
Basic Data 1970-71
Unit Districts

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Decile Averages									
Decile (By Number of Districts)	AV Per WADA	Tax Rate (Curr. Exp.)	Local Funds Per WADA	GSA Per WADA	State Cat. Aid Per WADA	Federal Cat. Aid Per WADA	Total Funds Per WADA	% of Total AV in Unit Dists.	% of WADA in Unit Dists.	Range AV Per WADA (hundreds)
X	$48,760	$1.67	$816	$112	$22	$ 30	$ 980	4.0%	1.7%	$36.1-96.9
IX	32,278	1.99	642	192	14	25	873	3.3	2.2	30.6-36.0
VIII	28,468	2.02	575	238	17	29	859	3.5	2.6	27.1-30.5
VII	25,331	2.10	533	288	30	28	879	7.6	6.4	24.0-27.0
Chicago	23,551	2.30	542	370	33	127	1,072	42.4	38.5	23.6-
VI	22,554	2.30	519	336	36	25	916	8.5	8.0	21.9-23.9
V	20,361	2.23	454	348	32	29	863	8.9	9.4	19.2-21.8
IV	18,329	2.26	414	371	33	28	846	8.0	9.4	17.6-19.1
III	16,177	2.37	383	402	24	27	836	6.3	8.3	15.3-17.5
II	13,572	2.27	309	421	18	27	775	4.1	6.5	12.6-15.2
I	10,536	2.30	243	464	26	82	815	3.4	7.0	3.5-12.5

AV = Assessed Valuation of Property
WADA = Weighted Average Daily Attendance of Pupils
GSA = General State Aid
State Cat. = State Categorical Aid, Excluding Driver Education
Federal Cat. = Federal Categorical Aid

All data shown in Table 1 except in columns 9, 10, and 11 are averages. Revenues are broken down into local funds, general state aid, state categorical aids, and federal categorical aids.

Table 2 shows basic data on the status of elementary districts in 1970-71. The range in assessed valuation per WADA is from $5,900 in the district of lowest amount to $371,200 in the district of highest value. This range is a ratio of 63 to 1.

Table 3 shows comparable data for high school districts. The range in district AV per WADA is from $20,700 to $191,700, or a ratio of 9 to 1.

Tables 4, 5, and 6 show the distributions of total revenues per WADA and tax rates for current expenses within each decile group. These figures show that there is some overlap in amounts per WADA from one group to the next. The ratios between the highest to lowest expenditures and highest to lowest tax rates by wealth deciles highlight the simultaneous problems of equalizing tax effort *and* expenditure per pupil unit (WADA). These ratios show a positive trend or correlation with reference to local wealth categories for expenditures. The ratios for tax effort are mixed with reference to local taxable wealth.

The distributions of revenues per WADA shown in the first three tables are illustrated in Charts 2, 3, and 4. These charts enable the reader to visualize the relatively small amounts of revenue from federal and state categorical funds. The largest components are state general aid and local funds. The proportion of the total represented in state general aid is highest (43 percent) in unit districts, second highest (15 percent) in elementary districts, and lowest (41 percent) in high school districts.

State general aid makes some contribution toward the equalization of available revenue per WADA. The local funds shown in these charts are averages resulting from variable local tax rates and hence do

Table 2
1970-71
Elementary Districts

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Decile Averages									
Decile (By Number of Districts)	AV Per WADA	Tax Rate (Curr. Exp.)	Local Funds Per WADA	GSA Per WADA	State Cat. Aid* Per WADA	Federal Cat. Aid Per WADA	Total Funds Per WADA	% of Total AV in Unit Dists.	% of WADA in Unit Dists.	Range AV Per WADA (hundreds)
X	$82,874	$1.19	$986	$ 82	$30	$10	$1,108	10.6%	3.6%	$61.2-371.2
IX	52,681	1.57	826	118	17	11	972	10.3	5.5	46.5-61.1
VIII	41,364	1.89	783	179	32	13	1,007	13.4	9.2	37.9-46.4
VII	34,240	1.76	603	249	27	19	898	13.1	10.8	31.4-37.8
VI	29,573	1.67	493	298	25	14	830	10.6	10.1	27.0-31.3
V	25,760	1.60	412	334	21	19	786	12.8	14.1	24.4-26.9
IV	22,917	1.72	395	359	24	14	792	10.6	13.1	20.9-24.3
III	19,440	1.73	335	396	20	16	767	7.8	11.4	18.1-20.8
II	16,079	1.65	266	426	15	19	726	6.1	10.8	14.5-18.0
I	11,659	1.67	194	472	35	46	747	4.7	11.4	5.9-14.4

* Excluding Driver Education

not show the potential amounts for each decile group at a uniform local tax rate. Obviously, these charts cannot be used for projecting additional funds needed at each decile to reach any designated equalized expenditure level. In the later section on planned phases of equalizing we shall show estimates of additional costs at different levels of tax effort.

One striking observation of these charts is the relative uniform (and small) amounts of state categorical and federal categorical aids with the exception of Chicago and decile I in Chart 2. Variations of these categorical funds among districts are large because of certain special aids like state and federal impaction funds and federal compensatory funds.

Since the average expenditure per WADA in 1972-73 in all districts is estimated to be around $1,000 the figure of $1,250 will be used as one of the examples in conjunction with a local tax rate of $2.50 ($3.10 in dual districts). This combination results in zero general state aid in the district with $50,000 AV per WADA ($80,645 in dual districts). The following numbers of districts show an expenditure of more than $1,250 per WADA in 1970-71: unit—2; elementary—14; high school—14.

In the next section we shall discuss further refinement in the Illinois measure of educational need as one important step to be undertaken to achieve a greater degree of equalization.

Table 3
1970-71
High School Districts

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Decile Averages									
Decile (By Number of Districts)	AV Per WADA	Tax Rate (Curr. Exp.)	Local Funds Per WADA	GSA Per WADA	State Cat. Aid* Per WADA	Federal Cat. Aid Per WADA	Total Funds Per WADA	% of Total AV in Unit Dists.	% of WADA in Unit Dists.	Range AV Per WADA (hundreds)
X	$102,880	$1.11	$1,139	$ 62	$19	$19	$1,239	6.5%	3.3%	$82.2-191.7
IX	77,297	1.32	1,017	80	33	16	1,146	10.7	7.2	69.3-82.1
VIII	66,169	1.47	970	93	27	28	1,118	12.4	9.8	62.9-69.2
VII	58,891	1.62	956	105	24	34	1,119	14.4	12.7	55.8-62.8
VI	52,934	1.39	735	117	27	38	917	8.2	8.0	51.8-55.7
V	49,892	1.59	794	136	26	23	979	12.2	12.7	48.4-51.7
IV	45,910	1.62	745	146	28	32	951	12.5	14.1	44.4-48.3
III	41,519	1.62	673	183	25	28	909	12.1	15.0	38.8-44.2
II	36,604	1.55	568	226	24	45	863	5.9	8.3	34.2-38.5
I	30,157	1.70	513	289	19	21	842	5.1	8.9	20.7-34.1

* Excluding Driver Education

Table 4
Unit Districts
Profile of Available Revenue for Current Operating Expenses
1970-71

	Revenue Per WADA				Tax Rates			
Decile	Highest	Median	Lowest	Ratio*	Highest	Median	Lowest	Ratio*
X	$1,346	$979	$732	1.84	$2.49	$1.98	$0.80	3.11
IX	1,061	872	702	1.51	2.64	2.00	1.51	1.75
VIII	1,080	852	728	1.48	2.56	2.00	1.60	1.60
VII	1,158	828	656	1.77	3.09	2.02	1.24	2.49
Chicago	.....	1,072	.....	.....	.....	2.30	.....	.....
VI	1,028	827	679	1.51	2.95	2.03	1.41	2.09
V	1,035	802	737	1.40	2.95	2.03	1.79	1.65
IV	1,028	797	699	1.47	3.10	2.07	1.62	1.91
III	967	782	709	1.36	2.95	2.09	1.70	1.74
II	901	775	664	1.36	2.85	2.20	1.68	1.70
I	950	778	657	1.45	2.91	2.27	1.36	2.14
All Unit Dists.	1,346	.....	656	2.05	3.10	.....	0.80	3.87

* Highest to Lowest

Measuring Educational Need

Fundamentally, the pupil is the unit of educational need. But pupils' educational needs, and the necessary financial resources to meet those needs, vary among individuals. A handicapped pupil may cost twice as much as a normal child. A slow learner may require supplementary instruction which can add fifty percent or more to the normal cost.

The early practice of computing educational expenditures on the basis of a gross pupil head count (enrollment), average daily attendance, or average daily membership, for each district has given way to some distinctions and cost adjustments (weightings) for some segments of the school curriculum. In Illinois the practice changed from annual ADA to "best six months ADA," and later to WADA. The WADA is computed by starting with the "best six months ADA" as a basic count. Each high school pupil is counted as 1.25 and each elementary pupil as 1.0. This increase of 25 percent in high school ADA is a recognition that these pupils cost at least 25 percent more than elementary pupils. The density correction is an additional weighting for various extra costs associated with heavily urbanized areas. But these corrections are "stop-gap" measures which have been adopted in a few states in recent years as proxies pending more direct and refined measures.

Table 5

Elementary Districts

Profile of Available Revenue for Current Operating Expenses

1970-71

Decile	Revenue Per WADA				Tax Rates			
	Highest	Median	Lowest	Ratio*	Highest	Median	Lowest	Ratio*
X	$2,183	$993	$590	3.70	$1.95	$1.10	$0.36	5.42
IX	1,468	801	600	2.45	2.68	1.22	0.93	2.88
VIII	1,340	751	621	2.16	2.55	1.27	1.05	2.43
VII	1,128	749	627	1.80	2.38	1.30	1.00	2.38
VI	1,070	717	632	1.69	2.42	1.35	1.13	2.14
V	937	715	635	1.48	2.28	1.39	1.11	2.05
IV	950	738	587	1.62	2.20	1.42	1.00	2.20
III	936	716	597	1.57	2.43	1.39	1.05	2.31
II	867	672	601	1.44	2.43	1.26	1.06	2.29
I	766†	666	591	1.30	2.06	1.30	1.02	2.02
All Elem. Dists.	2,183	.....	587	3.72	2.68	.....	0.36	7.44

* Highest to Lowest

† Excluding 3 districts with high impaction aid

Table 6

High School Districts

Profile of Available Revenue for Current Operating Expenses

1970-71

Decile	Revenue Per WADA				Tax Rates			
	Highest	Median	Lowest	Ratio*	Highest	Median	Lowest	Ratio*
X	$1,713	$1,223	$931	1.84	$1.29	$1.13	$0.67	1.93
IX	1,326	990	885	1.50	1.56	1.18	0.91	1.71
VIII	1,431	937	806	1.78	1.83	1.19	1.05	1.74
VII	1,484	929	795	1.87	2.33	1.25	1.12	2.08
VI	1,121	857	735	1.53	1.74	1.32	1.14	1.53
V	1,190	816	601	1.98	1.97	1.27	0.92	2.14
IV	1,201	869	724	1.66	2.11	1.38	1.20	1.76
III	1,049	815	731	1.44	1.90	1.46	1.17	1.62
II	1,000	792	716	1.40	1.99	1.28	0.85	2.34
I	965	778	655	1.47	2.06	1.40	1.20	1.72
All High School Dists.	1,713	.....	601	2.85	2.33	.....	0.67	3.48

* Highest to Lowest

Chart 2

Profile of Revenues for Current Operating Expenses — 1970-71

Unit Districts

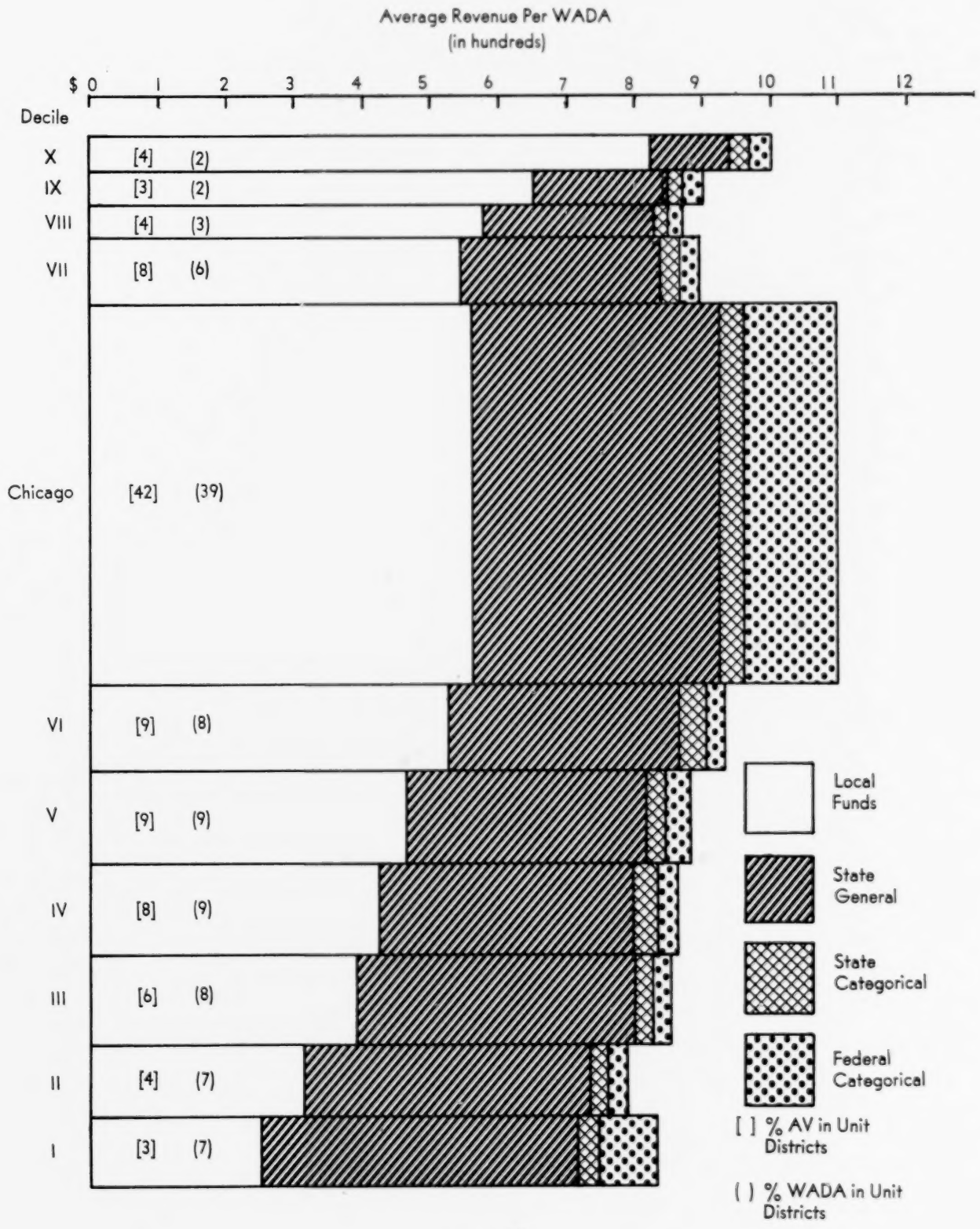


Chart 3

Profile of Revenues for Current Operating Expenses — 1970-71

Elementary Districts

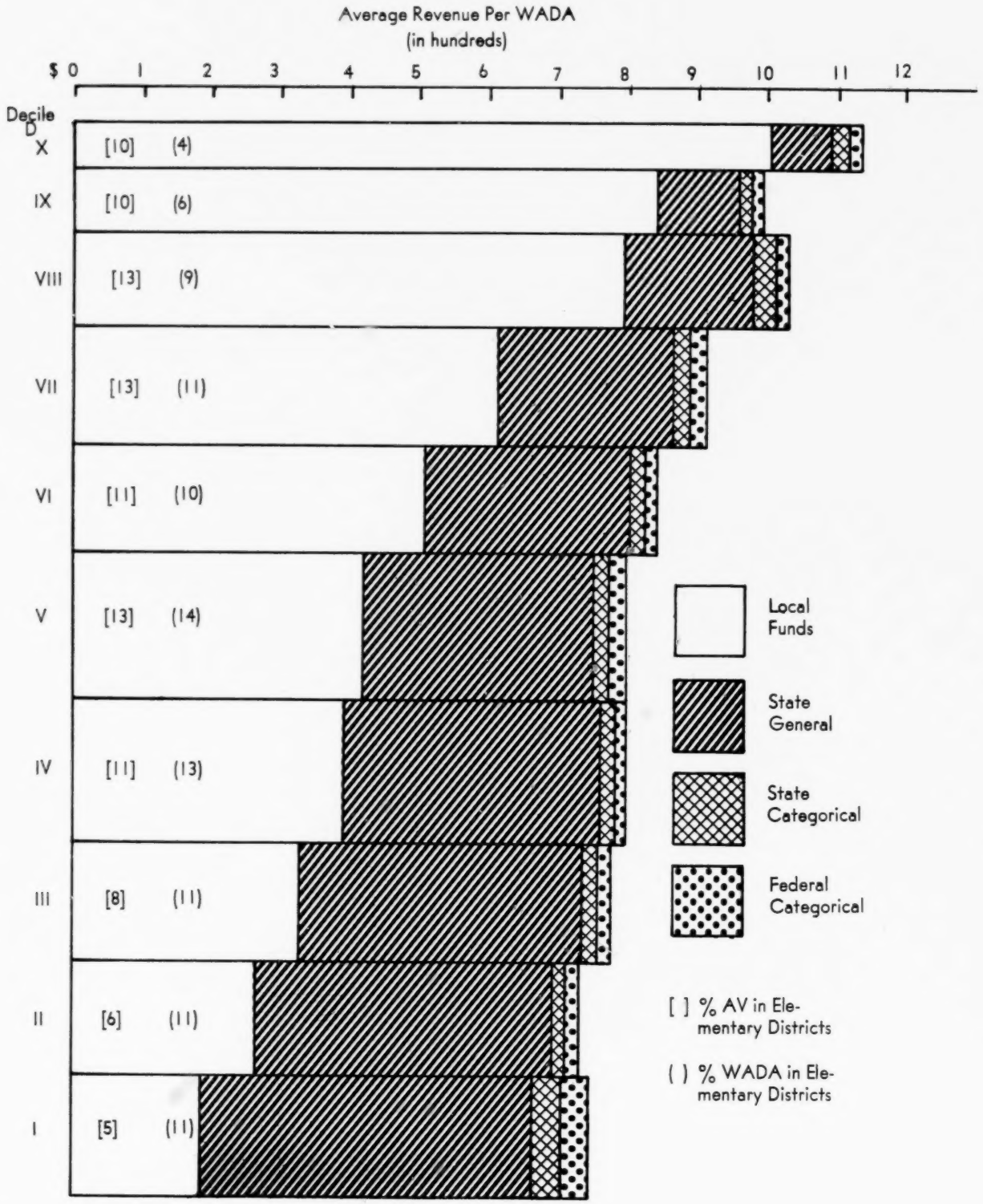
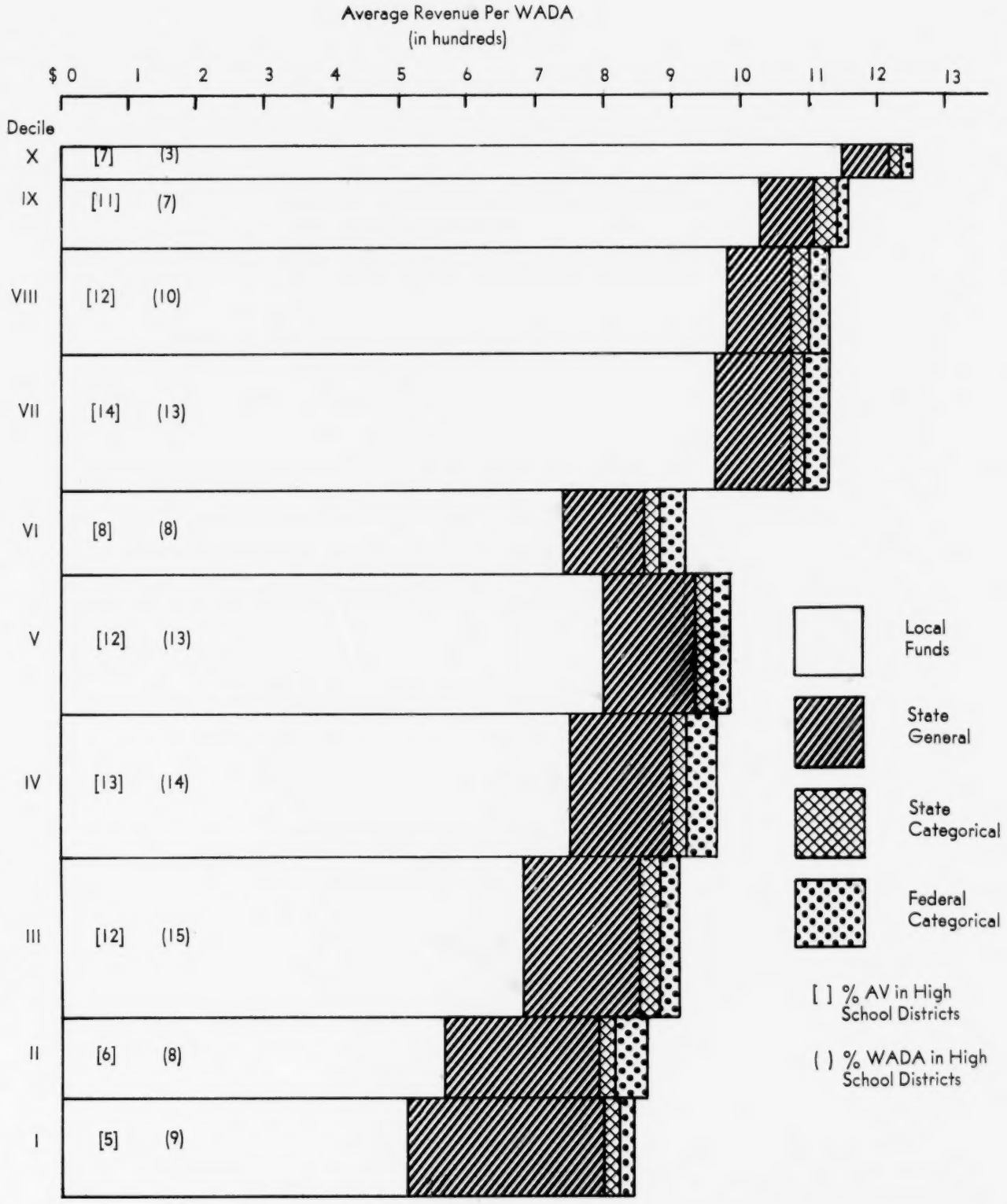


Chart 4

Profile of Revenues for Current Operating Expenses — 1970-71

High School Districts



In recent years methods have been developed which states can use annually, or perhaps every two years, to determine average per pupil costs in designated programs. To illustrate, in the recent National Educational Finance Project[1], average per pupil costs were developed in the following programs in a sample of 28 school systems scattered throughout the United States:

	Cost	Cost Differential
1. Nursery schools (single session per day for each teacher)	$1,050	1.40
2. Kindergarten (single session per day for each teacher)	975	1.30
3. Regular elementary programs: grades 1-6	750	1.00
4. Special education for exceptionally (severely) handicapped		
(1) Grades 6 and below	1,912	2.55
(2) Grades 7-12	1,522	2.03
5. Compensatory programs (speech, reading and other remediation)		
(1) Grades 6 and below	1,260	1.68
(2) Grades 7-12	1,372	1.83
6. Vocational-technical education*		
(1) Vocational courses	1,350	1.80
(2) Regular courses	960	1.28
7. Regular secondary programs: grades 7-12	960	1.28

* Student programs range from about 25 percent to 50 percent vocational course work and the remainder in regular courses.

At the present time considerable work is necessary to identify teachers, their salaries, and other expenses for this classification of programs. Pupil and financial accounting systems can be modified without much difficulty to provide annually reasonably accurate cost data on a program basis. According to present trends program costing will become standard practice within a few years. Program costing will become a valuable method to improve the measures of educational need for determining state aid and equally as important for local school officials to evaluate their educational systems. Program cost differentials can be used with the following advantages in state finance formulas:

1. To make allowance for variable concentrations of pupils among districts in need of higher-than-regular cost programs.

2. To avoid penalizing some districts and rewarding others because of differences in grade levels that are served.

3. To improve present cost units (pupil or instructional) in use for distribution of funds. Average program costs will focus the funds more directly on the target groups of pupils to be served.

4. To improve the quality of financial information that can be related more effectively to the educational results.

There are some potential abuses of program cost differentials which should be guarded against:

1. If large numbers of programs were defined for purposes of funding, the educational curriculum would become fragmented.

2. If program cost differentials were used for rigid controls of internal district allocations, the results would be harmful. On the other hand, funds should flow in accordance with estimated needs within reasonably administrable limits.

For purposes of illustration, the program cost differentials developed in the recent National Educational Finance Project will be applied. These cost factors are used for purposes of estimating the instructional needs among districts as compared with the present method of computing pupil units as WADA.

Since time has not permitted the development of differentials based on the costs of these programs in Illinois, comparisons cannot be made between the estimates based on these national norms and the present WADA units in each program. The estimates will show the differences for the total group of programs.

The next section considers the choice of a financial formula.

Choice of Financial Formula

A financial formula is nothing more than a statement of fiscal policies capable of being expressed in mathematical form. The Committee presents in this section three widely discussed state aid formulas that can implement the same fiscal policies. An understanding of the characteristics of these formulas may dispel some of the myth about the value of one formula as opposed to another.

Equalizing Formulas

There are three basic equalizing formulas in school finance described as *Strayer-Haig Equalizing, Resource Equalizing,* and *Percentage Equalizing.* We can illustrate these formulas in Chart 5. This chart represents four unit (K-12 grades) districts in Illinois: Number 1, with about the lowest assessed valuation of taxable property per WADA; Number 2, the district with median assessed valuation of property per WADA in the state; Number 3, an arbitrarily defined level as the key district which will be explained; and Number 4, the district with highest assessed valuation per WADA.

This chart represents an equalized expenditure of $1,250 per WADA (weighted average daily attendance) with a local uniform district tax effort at a rate (TR) of $2.50. This combination results in a breaking point, or key district, with assessed valuation of $50,000 per WADA at which the amount of state aid is zero by each formula. The formula for computing the amount of state aid per pupil unit (WADA) is shown for each type.

One observes immediately that there is no mathematical difference in the amounts of state aid and local funds per WADA produced in these formulas. The key district Number 3 receives no state funds under either one of the formulas. District Number 2 receives the state average amount of 56 percent state aid or $700 per WADA. District Number 1 receives 92 percent of the $1,250 expenditure from state funds from each formula.

The differences are not in the amounts of state aid computed for each district but in the basic elements of the formulas. There are two fundamental, determinative elements in each case that depend on governmental policy decisions (items 1 and 2 under each type). The third item is a concomitant element that is considered in determining the two basic elements of each formula. Actually all types require some equalization of resources. These formulas in Chart 5 produce equalized tax effort and equalized expenditure. The question of which type is a better choice for a particular state may be only a matter of semantics for most effective communication and general understanding.

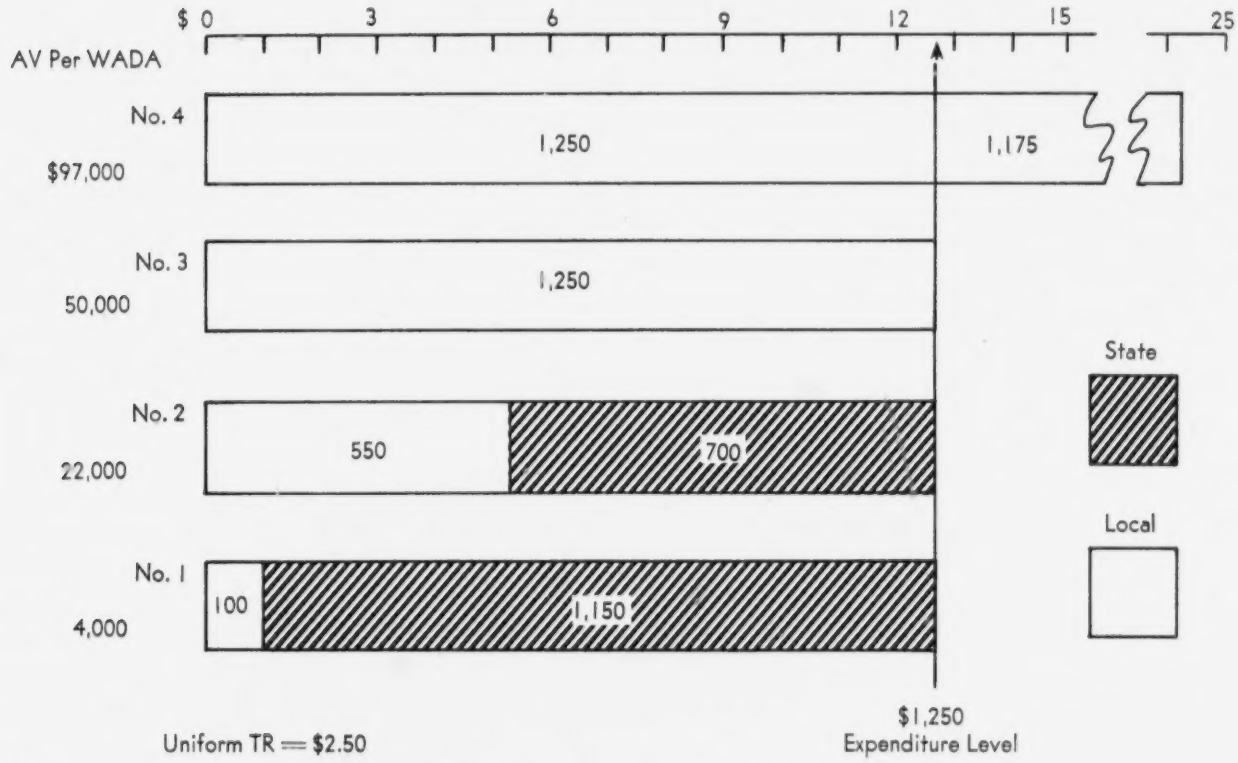
"Power" Equalizing Formulas

Now, each of the preceding equalizing formulas can be modified to produce equal expenditure for equal local tax effort (TR). Chart 6 illustrates the principle of *variability* in local tax effort (or burden) and in the corresponding expenditure level that is generated regardless of local taxable wealth. Districts 3 and 4 presumably would not be entitled to receive any state aid, hence they would be free to levy as much local tax as local citizens desire. Instead of mandating a local tax rate of $2.50 as illustrated in Chart 5, the state might adopt the policy of leaving to local districts the decision to increase local tax effort from where they may be at a given year to a limit of $2.50, at which point the full allowance of state aid and the accompanying expenditure of $1,250 per WADA would be reached. Any tax rate below $2.50 would produce the same proportion of the potential expenditure that the actual tax rate bears to $2.50.

Chart 5

Comparisons of Three State Finance Equalizing Formulas as Applied to Unit Districts

Expenditure Per WADA
(Weighted Average Daily Attendance)
(in hundreds)



Strayer-Haig Equalizer:

1. Legislate expenditure level: $1,250
2. Legislate uniform local TR: $2.50
3. Consider key district AV: $50,000

State Aid = $1,250 — .025 (Dist. AV)

AV = Assessed valuation of local property

Resource Equalizer:

1. Legislate key district AV: $50,000
2. Legislate uniform local TR: $2.50
3. Consider expenditure level: $1,250

State Aid = ($50,000 — Dist. AV) × .025

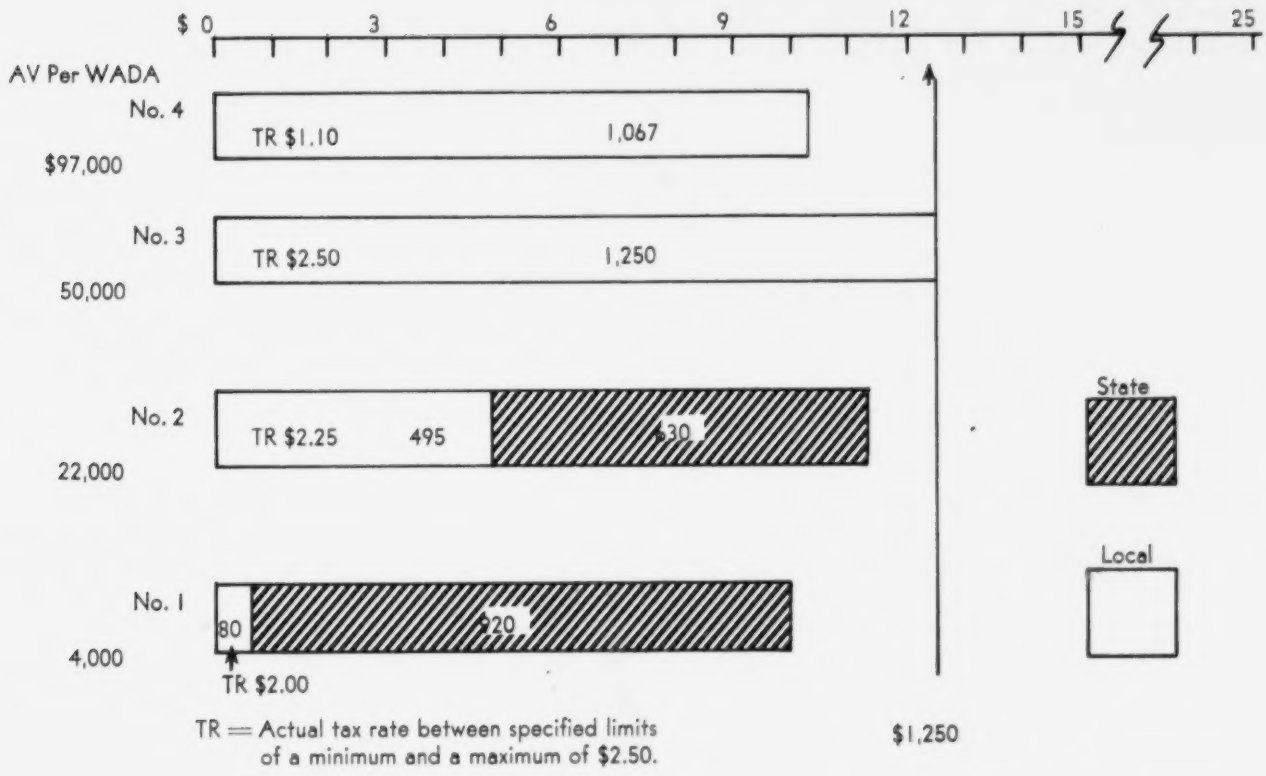
Percentage Equalizer:

1. Legislate percents of support from state (56%) and local (44%)
2. Legislate expenditure level: $1,250
3. Consider local TR: $2.50
   Key district AV: $50,000

$$\text{State Aid} = \left[1.00 - .44 \left(\frac{\text{Dist. AV}}{\text{State Ave. AV}} \right) \right] \times \$1{,}250$$

Chart 6

Equalized Expenditure for Equal Effort as Applied to Unit Districts



Strayer-Haig "Power" Equalizer:

1. Legislate potential exp. level: $1,250
2. Legislate local discretion to decide TR
3. Consider key district AV: $50,000

$$\text{State Aid} = \$1{,}250 \left(\frac{\text{TR}}{.025}\right) - \text{TR (Dist. AV)}$$

Resource "Power" Equalizer:

1. Legislate key district AV: $50,000
2. Legislate local discretion to decide TR
3. Consider maximum expenditure level: $1,250

State Aid = ($50,000 — Dist. AV) TR

Percentage "Power" Equalizer:

1. Legislate percents of support from state (56%) and local (44%)
2. Legislate local discretion to decide TR
3. Legislate potential expenditure level: $1,250

$$\text{State Aid} = \left[1.00 - .44 \left(\frac{\text{Dist. AV}}{\text{State Ave. AV}}\right)\right] \times \frac{\text{TR}}{.025} \times \$1{,}250$$

Hence, we have substituted the *Power Equalization* type in Chart 6 for the *Resource Equalizer* in Chart 5. "Power equalizing" is a term that means "power of the people" in each district to decide the level of expenditure which they can have for their schools at any corresponding level of tax effort they choose equal to other districts up to the statewide limit. Thus district Number 1 can generate $1,250 per WADA, an amount equal to the wealthy district Number 3, at an equivalent tax rate of $2.50. But this same result can be accomplished by introducing the effort principle into either one of the three equalizing formulas shown in Chart 5.

So, it should be clear that neither formula is mathematically superior to the other for resolving the basic issue; that is, of equalizing both *tax effort* and *expenditure level*. At best one might hope that one form might be more easily understood than the others.

Chart 6 illustrates the application of three types of formulas to implement the process of equalizing both local tax effort and expenditure level upward as described earlier in Chart 5. The state could "freeze" or stabilize the level of local tax burden by setting a feasible expenditure limit and a local tax limit. If the local tax limit were absolute and final, then further increases in the expenditure level would have to be met from full state funding. Thereafter, these equalization formulas would not apply.

Projections

In this section we shall present estimates to illustrate the process of equalizing upward in such manner that equal tax effort produces equal expenditure. There are two estimates: (1) one based on the WADA pupil units of educational need used in the present Illinois finance formula, and (2) the other based on the norms of the program cost differentials found recently in the study of the National Educational Finance Project (called WPIU—weighted pupil instructional units—to distinguish these units from WADA).

Estimates Based on Foundation Level of $1,250 per WADA

Unit Districts. The estimates for additional local funds and general state aid needed above 1970-71 figures to equalize all unit districts at $1,250 per WADA and $2.50 local tax rate are shown in Table 7. The total increases would be $73,266,000 in local funds and $565,601,000 in general aid funds.

High School Districts. Similar estimates of additional funds to equalize at $1,250 per WADA and $1.55 local tax rate in high school districts would be $21,640,000 in local funds and $104,041,000 in general aid funds.

Elementary Districts. Similar estimates of additional funds to equalize at $1,250 per WADA and $1.55 local tax rate in elementary districts would be $14,942,000 in local funds and $305,815,000 in general funds.

Summary: All Types. A summary of these estimates for the three types of districts is shown in Table 7. To reach the level of $1,250 per WADA expenditure the increases in local funds over the 1970-71 base would be 11.5 percent in unit districts, 9.7 percent in high school districts, 6.3 percent in elementary districts, and an overall increase of 10.0 percent. However, these increases would vary among districts and not be spread evenly. If these were spread over a 5-year period, the annual averages would be 2.3 percent in unit districts, 1.9 percent in high school districts, 1.3 percent in elementary districts, and 2.0 percent over all districts.

The greatest increases over the 1970-71 base would appear in general aid funds: 98 percent in unit districts, 168 percent in high school districts, 146 percent in elementary districts, and 115 percent over all districts.

Table 7

Estimates of Funds to Equalize at Foundation Goal of $1,250 per WADA — 1971-72 (in thousands)

Item	Units					
	Chicago	Other	Total	High School	Elementary	Total
Foundation Cost:						
1. Cost for WADA in Equalization Dists. (Excluding Flat Grant Dists.)	$645,715	$1,025,498	$1,671,213	$394,598	$743,106	$2,808,917
2. Cost for WADA Equivalents in Density and Categorical Aids @ $1,250 per WADA Eq.	116,921	61,332	178,253	17,063	26,518	221,833
3. Total Foundation Costs in Equalization Dists.	762,636	1,086,830	1,849,466	411,660	769,624	3,030,750

Table 7—Continued

Item	Units					
	Chicago	Other	Total	High School	Elementary	Total
Local Funds:						
4. Maximum Local Qualifying Funds @ $2.50 and $1.55 Tax Rates	304,138	404,231	708,369	245,634	253,854	1,207,857
5. Local Qualifying Funds at 1970-71 Effort: $2.50 and $1.55 or Actual Tax Rate if Lower	279,807	355,296	635,103	223,994	238,912	1,098,009
(Ave. Found. Level in Parenthesis)	(1,150)	(1,098)		(1,137)	(1,175)	(1,137)
6. Increase Local Effort for Maximum Equalization	24,331	48,935	73,266	21,640	14,942	109,848
7. Percent Increase	8.7%	13.8%	11.5%	9.7%	6.3%	10.0%
8. Local Funds Above 1970-71 Qualifying Effort: $2.50 and $1.55 or Lower	0	6,460	6,460	19,966	36,463	62,889
State Equalization Aid:						
9. 1971-72 General Aid Excluding Density	153,695	283,593	437,288	47,689	192,282	677,259
10. 1971-72 Density and Categorical Aids in WADA Equivalents	92,349	45,859	138,208	14,296	17,673	170,177
11. Total Aid in 1971-72 Applicable to Foundation Cost (No. 9 plus No. 10)	246,044	329,452	575,496	61,985	209,955	847,436
12. Additional Aid to Reach Foundation Cost in Equalization Districts (No. 3 minus No. 4 minus No. 11)	212,454	353,147	565,601	104,041	305,815	975,457
13. Additional Aid Annually for 5 Years	42,491	70,629	113,120	20,808	61,163	195,091
14. Percent Increase 1st Year	17%	21%	20%	34%	29%	23%
15. Additional Aid Annually for 6 Years	35,409	58,858	94,267	17,340	50,969	162,576
16. Percent Increase 1st Year	14%	18%	16%	28%	24%	19%
Other State Funds:						
17. 1971-72 Flat Grant for Non-Equalization Districts*	0	359	359	721	364	1,444
18. Other Categorical Aids in 1971-72 (Transp., Food, Impaction, Misc.)†	2,862	7,522	10,384	1,358	1,792	13,534
19. Federal Funds Not Included in Equalization	24,634	6,518	31,152	3,302	6,228	40,682

* Based on $64 per WADA, the average between $57 and amounts claimed by the alternate method of computation.
† Excluding Driver Education
Note: These estimates apply the 1971-72 state and federal funds to 1970-71 data on pupils and local taxes.

Let us assume that this model would be set up to operate for five years. Then, these increases would be spread over this period. The total expenditures resulting from these increases are shown in item 12; and when divided into five years would be 20 percent for the first year in unit districts, 34 percent in high school districts, 29 percent in elementary districts, and 23 percent over all districts. These estimates, of course, as-

sume that local districts would respond and raise local tax rates up to the suggested limits. Also, changes in pupil enrollments in districts would be accompanied by a comparable change in assessed valuations so as to retain the local ability at the 1970-71 level.

If this model were put into practice, the state would appropriate one-fifth of the estimated general aid, or an increase of $195,091,000 per year. Each district that has reached the prescribed tax limit would receive one-fifth of the increase in total general (equalization) aid needed to bring the expenditure up to $1,250 per WADA.

For example, the unit district Sandoval, with $12,185 assessed valuation of property per WADA, had a tax rate of $2.50 for current expenses in 1970-71. It received $435 per WADA in general aid in that year and raised $305 per WADA locally. At the $1,250 level this district would be entitled to $102 additional aid each year, or $510 in the fifth year.

Another district, Galena, with an assessed valuation of $11,919 per WADA, had a tax rate of $2.00, raising $239 per WADA locally and receiving $438 per WADA in general aid. If it raised its tax rate to $2.50 it would contribute $298. This figure plus present aid would be $736, leaving the difference of $514 as gross increase in general aid, or $103 per WADA per year. Now, if this district refused to increase its local tax rate, the amount of increased general aid would be reduced accordingly, i.e., the amount of aid would be $82 per WADA (2.00 divided by 2.50 or .80 times $103).

This illustration is extended in Table 8 to show estimates for districts at different levels of local property assessed valuations (AV). As these examples show, some districts with present high tax rates, as well as those that might increase their local taxes rapidly, would be entitled to relatively large annual increases. For reasons of prudence limitations might be imposed without special review. Another general limitation would be to extend the period another year.

State and federal categorical aids have been omitted from these estimates since these funds provide extra costs of special services like transportation and supplementary instruction in special programs.

In a later section the norms of program cost differentials from the recent National Educational Finance Project will be applied to pupil ADA in 1970-71 to compare the weighted pupil units computed by that method with the WADA as computed in this section. The net increase (or decrease) in overall state aid will be computed.

Estimates Based on Foundation Level of $1,250 per WPIU

The WPIU is the Weighted Pupil Instructional Unit that is computed by counting the number of pupils (best six months' average ADA) in grades one through six in "regular" programs and assigning to these pupils a unit cost value of $1.00. The pupil ADA in other programs as listed on pages 65 and 66 are weighted according to the respective average cost ratios that were found recently in a nationwide sample of districts of the National Educational Finance Project. Chicago was one of the sample districts and the average ratios are very close to the actual per pupil cost variations in Chicago. For example the average per pupil cost of full-day kindergarten programs was 1.30 times the average per pupil cost of regular elementary programs in grades 1-6. Thus, the total number of pupils in full-time ADA was multiplied by 1.30. In Illinois the state aid is based on half-day kindergartens, thus the ADA was multiplied by 0.65. In special education programs for exceptionally handicapped pupils the ADA in grades six and below was multiplied by 2.55, and so on for the respective programs.

The first order of estimation is to determine the increase in number of pupils cost units from the WADA units used in the current Illinois formula to the WPIU's based on cost differentials of these designated programs. It should be pointed out that the WADA unit has only one weighting of 1.25 for the ADA of pupils in grades nine through twelve. This one is also used in the WPIU's. In the present Illinois finance plan there are WADA equivalents in categorical state and federal aids that are granted for the respective programs to which WPIU's are computed. For example, the density correction which some 24 urban districts receive is a percentage add-on in dollars rather than in WADA's. State and federal aids for vocational education are likewise dollar add-ons to programs that cost more per pupil than the "regular" programs.

The categorical funds and WADA equivalents which these funds represent are shown in Table 9. These equivalents are then added to the total WADA's as computed in the present state finance formula and compared with the number of pupil units (WPIU's) as computed from program cost differentials.

These comparisons are shown in Table 10. For example, Chicago receives a net increase of 73,933 pupil units over the present WADA's and the WADA equivalents in categorical funds of density correction, special education, and vocational education funds. Other unit districts receive a net increase of

Table 8

Illustrations of Increased Equalization Aid Annually Based on a 5-year Plan to Provide Potential of $1,250 per WADA

District	Co.	Dist.	1970-71 AV Per WADA	1970-71 Tax Rate	1970-71 Gen. Aid Per WADA	Increased Equalization Aid. Tax Limits $2.50 — Unit $1.55 — Dual: Amount at Tax Limit* (Potential)	Increased Equalization Aid. Tax Limits $2.50 — Unit $1.55 — Dual: Amount at 1970-71 Tax Rate
Unit							
1. Brookport	061	0380	$ 3,457	$2.25	$541	$125	$113
2. West Frankfort	028	1680	9,273	2.50	470	110	110
3. Altamont	025	0100	22,142	1.82	315	76	55
4. Elmwood Park	016	4010	22,567	2.88	309	75	75
5. Toulon-Lafayette	088	0020	31,265	2.64	204	53	53
6. Farmer City	020	0100	31,291	1.91	204	53	40
High School							
7. Dahlgren	033	0970	30,388	1.55	286	99	99
8. Riverton	084	2420	30,505	1.24	285	98	78
9. Morris	032	1010	51,523	1.19	120	66	51
10. Hinsdale	022	0860	52,049	1.63	119	65	65
11. East Peoria	090	3090	64,565	1.05	96	31	21
12. Proviso	016	2090	65,205	1.55	95	29	29
Elementary							
13. Marquardt	022	0150	10,837	2.05	477	117	117
14. Unity Point	039	1400	10,826	1.18	477	117	89
15. Maywood	016	0890	26,685	1.76	322	103	103
16. Pekin	090	1080	26,637	1.19	323	103	79
17. Franklin Park	016	0840	56,674	1.84	109	53	53
18. Ferris	034	0800	56,875	1.10	109	52	37

* Minus categorical aids that are applicable to equalization as illustrated in Table 9.

80,462 pupil units. Net increases for high school and elementary districts are 6,977 and 65,694 pupil units respectively. The net total increase in pupil units (or pupil equivalents) to provide the higher-than-average cost of designated programs is 227,066.

To examine the effect of these increases in pupil units in greater detail we now turn to profiles shown in Charts 7, 8 and 9. These charts are made to the same scale as Charts 2, 3, and 4 that were based on the WADA cost units.

In Charts 7, 8 and 9 districts again are divided into deciles (tenths of total number of districts in each type) after being ranked from highest to lowest in local equalized assessed valuation of taxable property per WPIU. Chicago is singled out in the unit districts becase of its size.

Upon comparing Chart 2 with Chart 7, Chicago has dropped in relative local taxable wealth position from the top of decile VI per WADA to the top of decile VI per WPIU. In Chart 2 Chicago's assessed valuation of property is $23,551 per WADA. In Chart 7 the relative amount is $17,784 per WPIU because of the added pupil unit equivalents appearing in the extra expenditures for higher than average cost of certain programs. Under the present Illinois finance plan Chicago appears to have more local taxable wealth than the "true" amount for the programs that are being offered, as compared with other districts. Furthermore, when categorical money is added without a comparable number of instructional units, the expenditure level is likewise inflated. The expenditure per WADA, shown in Chart 2, is $1,072 per WADA whereas in Chart 7 the amount is $809 per WPIU. The latter figure based on WPIU's is much closer to the actual expenditure per pupil in the "regular" programs in grades 1-6 than the amount per WADA unit.

Table 9

Categorical Funds and Their WADA Equivalents Applicable to Foundation Costs
1971-72

Funds	Unit				
	Chicago	Total	High School	Elementary	Total
1. Density Correction					
— in $	$37,606,343	$47,003,710	$1,114,070	$ 900,234	$49,018,018
— WADA Equivalents	35,113	45,265	1,071	1,078	47,414
2. Special Ed. (Exceptional child)					
— in $	11,228,284	22,138,793	2,918,195	11,283,518	36,340,506
— WADA Equivalents	11,983	23,627	2,785	13,546	39,958
3. Voc. Ed.*					
— in $	5,572,412	14,300,116	8,187,901	77,695	22,565,712
— WADA Equivalents	5,947	15,262	7,813	93	23,168
4. Federal (Title I, II)					
— in $	37,942,417	54,765,604	2,076,080	5,411,725	62,253,409
— WADA Equivalents	40,494	58,448	1,981	6,497	66,926
5. Total Categoricals					
— in $	92,349,426	138,208,223	14,296,246	17,673,172	170,177,641
— WADA Equivalents	93,537	142,602	13,650	21,214	177,466

* 50% State and 50% Federal

Table 10

Comparison of Two Methods for Computing Pupil Instructional Cost Units: (1) Present WADA Plus Categorical Aids with (2) WPIU Derived from Program Cost Differentials
1970-71

Districts	WPIU	WADA Plus WADA Equivalents in Categorical Aids			Increase	
		WADA	WADA Equivalents	Total	Number	Percent
1. Chicago	684,041	516,571	93,537	610,108	73,933	12.1%
2. Other Units	955,528	826,001	80,462	875,066	80,462	9.2
3. Total Units	1,639,569	1,342,572	142,602	1,485,174	154,395	10.4
4. High School	347,571	326,944	13,650	340,594	6,977	2.0
5. Elementary	687,077	600,169	21,214	621,383	65,694	10.6
6. Total	2,674,217	2,269,685	177,466	2,447,151	227,066	9.3

The changes shown here for Chicago likewise occur among other districts to a varying degree depending upon the relative concentration of pupils in the special programs. Chicago is known to have a much higher concentration of pupils in the special programs proportionately than most other districts with a few exceptions. Thus, the over-all shifting in both the local taxable wealth position and expenditure level results in a few changes from one decile to the next, either up or down.

Upon further examination of these profiles we find some additional changes. In Chart 7 the ratio from the highest expenditure per WPIU of $1,248 to the lowest of $442 is 2.82. This ratio compares with the figure of 2.05 on the basis of WADA. The ratio of highest decile median per WPIU of $875 to the lowest decile median of $622 is 1.41, as compared with 1.26 on a WADA basis. Among elementary districts the ratio from highest expenditure per WPIU to lowest is 5.29, whereas on a WADA basis the ratio is 3.72. The ratio from the highest decile median to the lowest decile median is 1.43 on a WADA basis. Among high school districts the ratio from the highest district expenditure per WPIU to the lowest is 4.19, whereas on a WADA basis the ratio is 2.85. The ratio from the highest decile median to the lowest decile median is 1.68, as compared with 1.57 on a WADA basis.

Chart 7

Profile of Revenues for Current Operating Expenses Per WPIU — 1970-71

Unit Districts

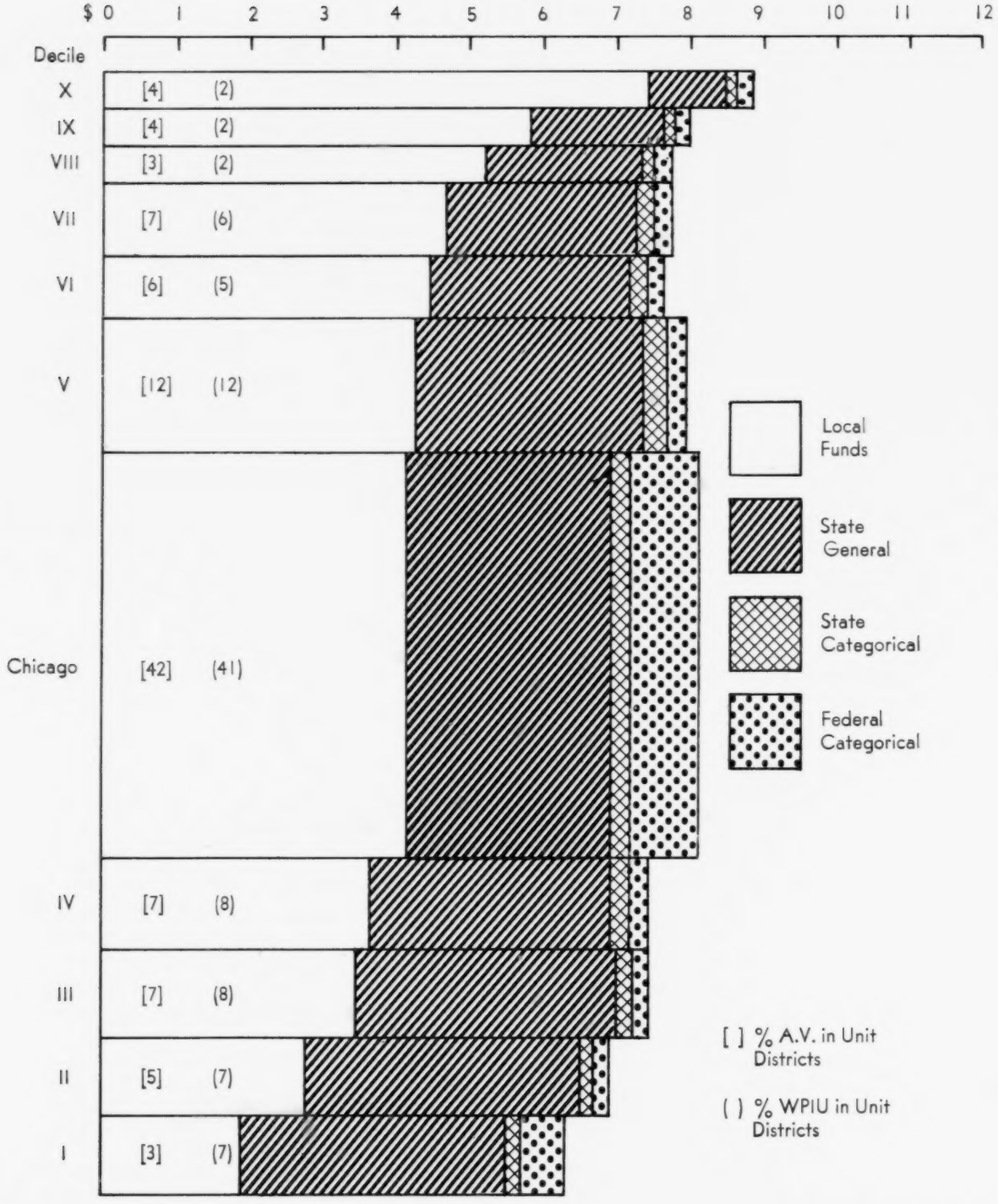


Chart 8

Profile of Revenues for Current Operating Expenses Per WPIU — 1970-71

Elementary Districts

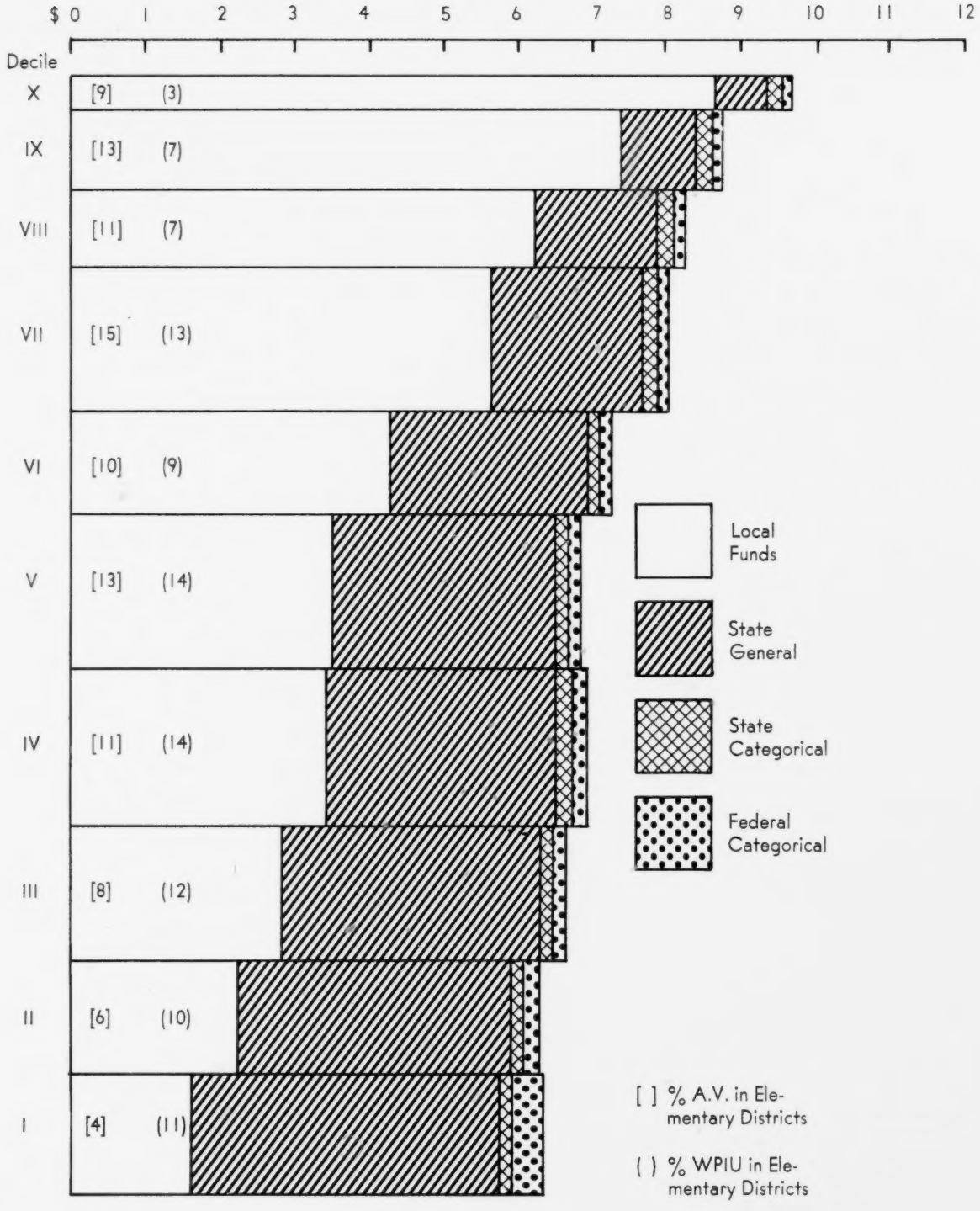
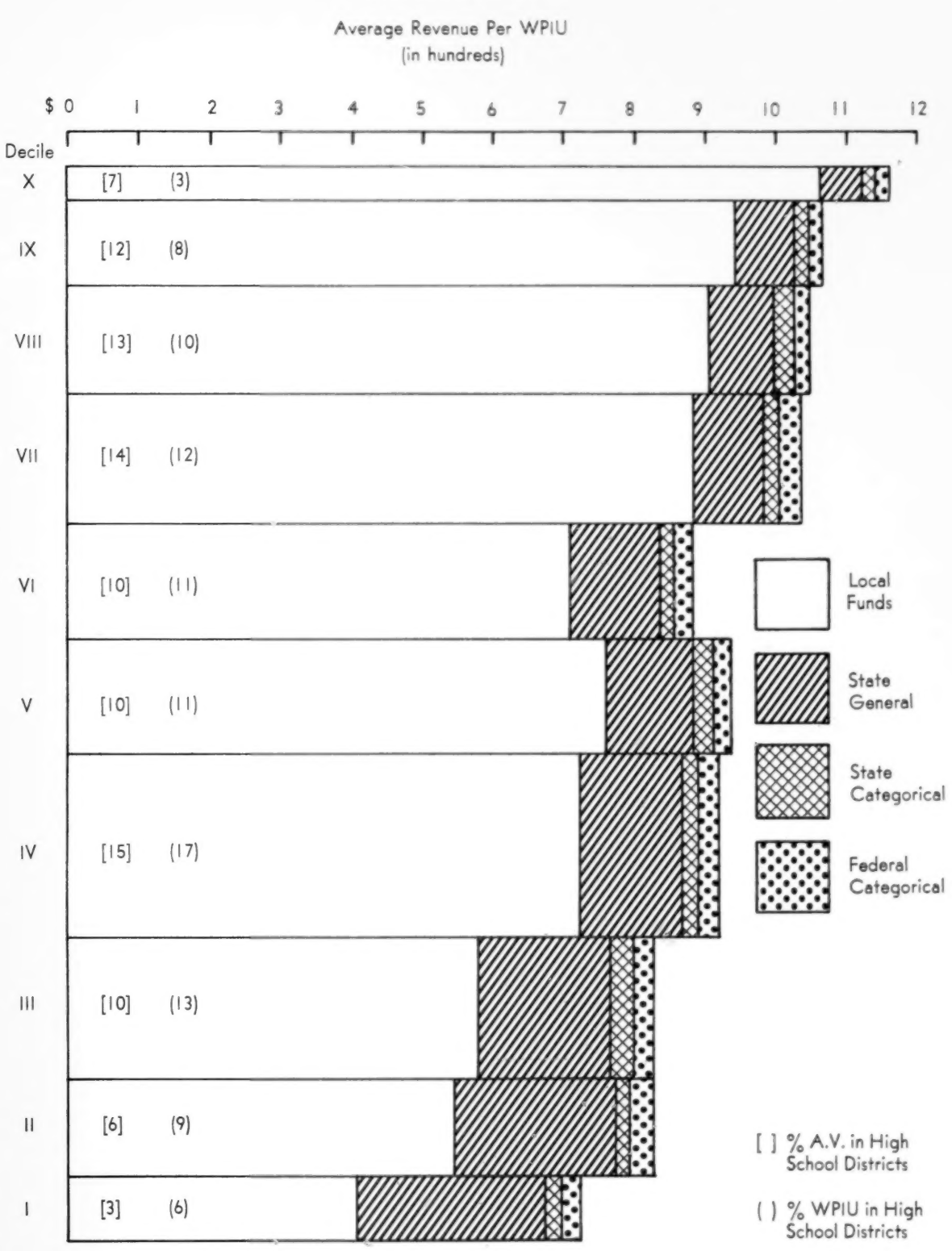


Chart 9

Profile of Revenues for Current Operating Expenses Per WPIU — 1970-71

High School Districts



In every case, except the range between the decile medians in the elementary districts, the range from highest to lowest is greater on the WPIU expenditures than on the WADA basis. Thus, the true spread (or disparity) between the highest expenditure and the lowest amount per pupil is greater than the amounts shown on the WADA basis that is used currently for state aid purposes.

These analyses bear out findings that appear consistently in other states as well as in Illinois, namely that refinement in the measurement of educational need (comparable instructional cost units) is one of the most important steps that can be taken in fiscal policies that are designed to increase the degree of equalization of financial resources among districts.

The back-up data for Chart 7, 8, and 9 are shown in Tables 11, 12, and 13.

Estimates Based on WPIU: Second Order

The second order of estimation based on WPIU's is to translate the net increases in pupil units over the WADA units plus categorical aids into additional costs. These net increases will be based on the same assumptions of the overall model of $1,250 per WPIU expenditure goal that is illustrated for a five-year period, accompanied by local tax rate limits of $2.50 in unit districts and $1.55 in dual districts.

These estimates of increased state funds cannot be shown on a decile basis for each of the three types of districts. Estimates for net increases are made for Chicago, the total of other unit districts and the totals of high school and elementary districts. This procedure is dictated by the inability to sort out on a district by district basis the particular categoricals that are translated into WADA equivalents. Only those categorical state and federal aids applicable to the programs for which cost differentials are computed on the WPIU basis are included. Others such as transportation, food service, driver education, adult education, summer school and impaction aids are excluded and reported separately.

Table 11

Unit Districts

Profile of Available Revenues for Current Operating Expenses per WPIU* 1970-71

Decile	Highest	Median	Lowest	Ratio (Highest ÷ Lowest)
X	$1,248	$875	$625	2.00
IX	1,003	796	622	1.61
VIII	907	764	628	1.44
VII	894	747	648	1.38
VI	992	723	563	1.76
V	873	723	589	1.48
Chicago	.....	809	.....	.....
IV	882	695	614	1.44
III	831	677	509	1.63
II	790	688	546	1.45
I	822	622	442	1.86
All Unit Districts	1,248	.....	442	2.82

* Weighted Pupil Instructional Unit based on program cost differentials found in the National Educational Finance Project Special Study No. 1.

Table 14 shows the estimates of state and local funds to equalize at the foundation goal of $1,250 per WPIU and local districts uniform tax effort of $2.50 in unit districts and $1.55 in dual districts. Also, this table shows the estimate of state funds to equalize at these rates or actual rates where lower in 1970-71.

The salient estimates are as follows: The total additional state aid with all districts up to the maximum local effort is $1,259,033,000 as compared with $847,433,000 in 1971-72. The additional amount of state aid to match the local tax effort in 1970-71 is $1,078,641,000 (item 5, Table 14). Thus, an increase of $180,392,000 (item 6 minus item 5 in Table 14) in state aid would be generated by an increase of $109,848,000 (item 3 minus item 2 in Table 14) in local tax effort within unit districts below $2.50 tax rate and dual districts below $1.55 rate. In other words, an increase of $1.00 in local effort would generate $1.64 of state aid. Individual districts would vary widely in the amount generated with increased tax effort.

Table 12

Elementary Districts

Profile of Available Revenues for Current Operating Expenses per WPIU*

1970-71

Decile	Highest	Median	Lowest	Ratio (Highest ÷ Lowest)
X	$2,139	$850	$532	4.02
IX	1,320	722	563	2.34
VIII	1,102	658	524	2.10
VII	990	676	480	2.06
VI	936	638	511	1.83
V	868	632	515	1.69
IV	814	648	517	1.57
III	833	615	404	2.06
II	733	609	453	1.62
I	690*	593	480	1.44
All Elementary Districts	2,139	.....	404	5.29

**Ibid.*, Table 11.

Table 13

High School Districts

Profile of Available Revenues for Current Operating Expenses per WPIU*

1970-71

Decile	Highest	Median	Lowest	Ratio (Highest ÷ Lowest)
X	$1,627	$1,113	$864	1.88
IX	1,263	911	809	1.56
VIII	1,268	868	770	1.65
VII	1,445	817	714	2.02
VI	1,042	819	591	1.76
V	1,124	747	652	1.72
IV	1,025	785	626	1.64
III	1,040	806	651	1.60
II	965	730	590	1.64
I	855	661	388	2.20
All High School Districts	1,627	.....	388	4.19

**Ibid.*, Table 11.

Another fact is the cost of special programs as reflected in the difference between WPIU's in Table 14 and WADA's plus applicable categoricals in Table 7. The additional maximum equalization aid for WPIU's is $1,259,033,000, for WADA's plus applicable categoricals the addition is $975,457,000 (item 12 in Table 7.) The difference is $283,576,000. This sum is equal to $1,250 times 227,066 WADA equivalents shown in Table 10. In other words if the WADA plus categorical approach of present practice is followed as shown in Table 7, the districts of the state would be transferring this sum of money from "regular" programs to match the categorical funds in order to meet the total extra costs of the designated special programs. The result would be a true equalization level of $1,150 per WADA for basic or regular programs instead of the apparent $1,250 figure.

Table 14

Estimates of Funds to Equalize at Foundation Goal of $1,250 per WPIU (Weighted Pupil Instructional Units Based on Program Cost Differentials)
1971-72

(in thousands)

Item	Units					
	Chicago	Other	Total	High School	Elementary	Total
Foundation Cost:						
1. Cost for WPIU in Equalization Dists. (Excluding Flat Grant Dists.)	$855,051	$1,187,483	$2,042,534	$419,864	$851,928	$3,314,326
Local Funds:						
2. Maximum Local Qualifying Funds @ $2.50 and $1.55 Tax Rates	304,138	404,231	708,369	245,634	253,854	1,207,857
3. Local Qualifying Funds at 1970-71 Effort: $2.50 to $1.55 or Actual Rate if Lower	279,807	355,296	635,103	223,994	238,912	1,098,009
State Equalization Aid:						
4. 1971-72 Total General Aid, Density, and Categorical Aid Applicable to Foundation Cost	246,044	329,452	575,496	61,985	209,955	847,436
5. Additional Aid at 1970-71 Local Tax Effort (Item 3)	260,707	363,601	624,308	98,631	355,702	1,078,641
6. Additional Aid to Reach Foundation Cost in Equalization Districts (No. 1 minus No. 2 minus No. 4)	304,869	453,800	758,669	112,245	388,119	1,259,033
7. Maximum Additional Aid Annually for 5 Years	60,974	90,760	151,734	22,449	77,624	251,807
8. Percent Increase 1st Year	25%	28%	26%	36%	37%	30%
9. Additional Aid Annually for 6 Years	50,812	75,633	126,445	18,708	64,686	209,839
10. Percent Increase 1st Year	21%	23%	22%	30%	31%	25%
11. Percent of Total Additional Aid: Any Given Appropriation	24%	36%	60%	9%	31%	100%
Other State Aid:						
(Same as shown in Table 7)						

Note: These estimates apply 1971-72 state and federal funds to 1970-71 data on pupils and local taxes.

Other important facts to point out in Table 14 are the estimates of increased state equalization if the maximum amounts were generated and spread over five or six years. These amounts are illustrations of maximums within these respective time spans. Their greater significance is to illustrate a general equalization model of equal expenditure for equal effort for (1) setting a state policy goal, and (2) applying any specific annual state aid appropriations within the model.

Summary of Comparisons Between WADA and WPIU

Measures of Educational Need

Thus far we have shown the estimates for implementing the principle of equal expenditure for equal local tax effort to equalize districts upward from the status in 1970-71 to a maximum of $1,250 per pupil unit as illustrated in Chart 1 on page 51. These estimates exclude other local, state and federal

funds as shown in Table 7 and local funds raised above the illustrated maximum tax rates of $2.50 and $1.55. Some categorical aids are needed to provide either partial or total cost of services that cannot be translated into pupil instructional units, such as transportation, food service, driver education and adult continuation programs. Summer school is a special extension of the school year for limited programs and must be treated as a special category.

State and Federal impaction funds belong within the equalization costs and not separately. These figures are not available for inclusion and hence they appear in the "other" state and federal categoricals. Thus, the total estimates of increased state aid are subject to reduction by the amounts of these categorical funds in 1971-72. The flat grants for non-equalization districts must be added.

A summary of all state and federal categorical aids in 1971-72 and their allocation in this study is shown in Table 15.

Two other tables show data which illustrate further the magnitude of the task to accomplish a high degree of equalization among school districts in Illinois. Table 16 shows a distribution of districts by expenditure levels in 1970-71 on WADA units as compared with WPIU's. Table 17 shows a distribution of districts by local tax rates for current operating expenses.

Table 15

Summary of All Categorical Funds
1971-72

(in thousands)

	Federal			State		
	Total	Applicable to Foundation Cost	Other	Total	Applicable to Foundation Cost	Other
Chicago	$ 65,362	$40,728	$24,634	$16,876	$14,014	$ 2,862
Other Units	27,705	21,187	6,518	22,797	15,275	7,522
All Units	93,067	61,915	31,152	39,673	29,289	10,384
High School	9,472	6,170	3,302	8,370	7,012	1,358
Elementary	11,679	5,481	6,228	13,114	11,322	1,792
Total	$114,218	$73,536	$40,682	$61,157	$47,623	$13,534

Note: Funds for Driver Education and Density Bonus are excluded.

Table 16

Distribution of Districts According to 1970-71 Current Operating Expenditure Levels

Range — Expenditure Per Pupil (WADA and WPIU)	Number of Districts					
	Unit		High School		Elementary	
	WADA	WPIU	WADA	WPIU	WADA	WPIU
1. $ 388 - 550		7		3		55
2. 551 - 650		55	1	8	67	244
3. 651 - 750	55	201	18	36	260	164
4. 751 - 850	210	105	42	41	128	55
5. 851 - 950	97	37	42	34	58	32
6. 951 - 1000	26	9	13	7	15	7
7. 1001 - 1050	14	2	12	9	6	5
8. 1051 - 1150	13	1	9	13	25	12
9. 1151 - 1250	2	2	13	5	11	5
10. 1251 - 1350	2		7	3	3	3
11. 1351 - 1450			1	1	8	1
12. 1451 - 1550			5	3	2	
13. 1551 - 1650				1		
14. 1651 - 1750			1			
15. 1751 - 2183					1	1

Table 17

Distribution of Tax Rates For Current Operating Expenditures

1970-71

Range of Tax Rates	Number of Districts		
	Unit	High School	Elementary
1. $0.36 - 1.00	2	11	22
2. 1.01 - 1.30		85	275
3. 1.31 - 1.55	7	40	128
4. 1.56 - 1.75	26	14	69
5. 1.76 - 2.00	98	11	57
6. 2.01 - 2.25	179	2	23
7. 2.26 - 2.50	69	1	8
8. 2.51 - 2.75	26		2
9. 2.76 - 3.00	10		
10. 3.01 - 3.25	2		
11. 3.26 - 3.50			

Estimates for Intermediate Foundation Level of $1,000 per WPIU

This section presents estimates to illustrate a policy to set an equalization goal of $1,000 per WPIU. This level is intermediate between the status of 1970-71 and the level of $1,250 described in the preceding section. The data are shown in Table 18.

The significant differences are as follows: First, at the intermediate level districts would have far less incentive to increase local tax effort than at the higher level. Local taxes would increase only $14,414,000 from the 1970-71 effort to the maximum qualifying rates of $2.00 for unit districts and $1.30 for dual districts. The accompanying state aid generated is $17,835,000, an average of $1.24 for each $1.00 of increase in local effort. At the level of $1,250 per WPIU an increase of $1.00 in local effort generates $1.64 in state aid.

Second, the lower level provides less annual increase for a given district with a particular increase in tax effort for the same total state increase in aid. Thus, if the state wishes to place a premium on equalization of local tax effort the higher equalization level would be preferable to the intermediate one even though the full aid commitment were not reached at the time all districts achieved the higher equalized effort.

Summary of Chapter 3

This chapter presents the following assumptions and findings:

1. Equal educational opportunity for every individual requires variable curricula, educational learning environments, and financial resources organized and operated in such manner as to meet the needs of the individual as nearly as possible.
2. Some pupils require a greater expenditure of funds to meet their needs than do other pupils.
3. Districts vary widely in the proportion of total pupils who require extra costs.
4. Procedures to provide extra funds in relation to the pupil needs are essential in equalizing the financial support among districts.
5. Equalized financial support to meet the needs of a district's clientele should be accompanied by equal local tax effort.
6. A local tax of $2.50 in unit districts and $1.55 in dual districts is a reasonable burden to place on property. This assumption is based on the reasonableness of retaining the present 60 cent differential between communities with unit (K-12) districts and dual districts as an incentive for reorganization of duals into unit-type districts. (Estimates not shown previously are that the removal of this differential, either through reorganization of dual districts into units through legislative processes or court action, will require additional state aid amounting to $93,623,000.)

   Also, this assumption is based on an estimate of an additional local tax of 50 cents to finance an adequately equalized program of capital facilities through equalized sharing, thus raising the presumed limit of property tax burden to $3.00 in unit districts and $1.80 in dual districts.

Table 18

Estimates of Funds to Equalize at Foundation Goal of $1,000 per WPIU — 1971-72
(in thousands)

Item	Units					
	Chicago	Other	Total	High School	Elementary	Total
Foundation Cost:						
1. Cost for WPIU in Equalization Dists. (Excluding Flat Grant Dists.)	$684,041	$949,986	$1,634,027	$315,004	$681,240	$2,630,271
Local Funds:						
2. Maximum Local Qualifying Funds @ $2.00 and $1.30 Tax Rates	243,310	323,384	566,694	185,985	212,626	965,305
3. Local Qualifying Funds at 1970-71 Effort: $2.00 and $1.30 or Actual Rate if Lower	243,310	317,272	560,582	181,165	209,144	950,891
4. Additional Local Funds to Reach Maximum Local Effort	0	6,112	6,112	4,820	3,482	14,414
5. Local Funds Above 1970-71 Qualifying Effort: $2.00 and $1.30 or Actual Rate if Lower	36,435	33,003	69,438	23,864	28,706	122,008
State Equalization Aid:						
6. 1971-72 Total General Aid, Density, and Categorical Aid Applicable to Foundation Cost	246,004	329,452	575,496	61,985	209,955	847,436
7. Additional Aid to Reach Foundation Cost in Equalization Districts (No. 1 minus No. 2 minus No. 6)	194,687	297,150	491,837	67,034	258,659	817,530
8. Additional Aid Annually for 5 Years	38,937	59,430	98,367	13,407	51,732	163,506
9. Percent Increase 1st Year	15.8%	18.0%	17.1%	21.6%	24.6%	19.3%
10. Additional Aid at 1970-71 Tax Effort	194,687	287,601	482,288	64,943	252,464	799,695
11. Difference in Aid Between 1970-71 Tax Effort and Maximum	0	9,549	9,549	2,091	6,195	17,835
Other State Aid:						
(Same as shown in Table 7)						

Note: These estimates apply 1971-72 state and federal funds to 1970-71 data on pupils and local taxes.

7. It is assumed that only a small local tax leeway above the preceding amounts would be feasible.
8. These tax rates are based on the assumption of equalized property assessment ratios at 55 percent of market value.
9. Two fundamental approaches are presented in this chapter as procedures for measuring educational need (the number of cost units in each district). One is the present practice of combining a limited weighting of pupil attendance (WADA) with categorical aids. The other is to use norms of full costs of designated programs (weighted pupil instructional units—WPIU's). The case for the latter is described in the footnote reference at the end of this chapter. The procedure for computing WPIU's in this chapter is basic to educational program cost analysis (in recent years referred to as program accounting for PPBS).

The present practice in Illinois, as commonly found in other states, is to provide only a limited part of the extra costs of special programs through state and federal categorical aids. If the state assumes a share of the total costs of these programs, rather than a share at a low foundation level, a procedure for annual computations of full costs would provide the weightings of pupil ADA as illustrated in the WPIU's of this chapter.

10. A few categorical aids will be needed for certain services that have their own criterion needs. Examples of these are transportation, food service, adult continuing education, driver education, and summer school.
11. The equalization model of $1,250 per WADA, or WPIU, with accompanying local tax limits provides a financial system for equalizing local tax effort and expenditures. The revenue to be provided from state aid is presumed to be derived from state collected taxes that also meet the test of reasonable equity.

    The system is built on the principle of a goal to work toward over a period of several years rather than a formula that has to be built each year to fit a given state appropriation. This model will require infrequent changes in the basic structure as compared with the traditional practice of annually rewriting the finance formula.
12. This chapter is based on the assumption that equalization will be accomplished through leveling upward but not downward.
13. It is assumed that the federal government would allow the inclusion of certain categorical aids as vocational funds and compensatory funds (Title I) which apply specifically to special programs for which equalized costs are measured by the procedure for computing WPIU's.
14. There is no estimate in this study for possible variations in cost of living for which a correction might be justified in the equalized levels of $1,250 and $1,000 for different parts of the state. Procedures for estimating valid and defensible differences have not been developed. The density correction may be the best available measure for a number of urban extra costs such as excess cost of living, security costs, and many others due to high concentration of population. The original purpose of the density correction was to serve as a proxy for measuring extra costs due to high concentration of educationally disadvantaged pupils in need of extra services. However, since these estimates can now be made through procedures illustrated in the WPIU's of this chapter, the density correction could be utilized as a measure of the general "urban" extra costs for which no procedure has been developed to estimate. Thus, the density funds included in the foundation costs in this chapter would be excluded and treated as categorical aids above the foundation. In this case the amounts of additional state aid shown in Tables 7, 14, and 18 would be increased as follows: Chicago $37,606,343; other units $15,397,367; total units $47,003,710; high school $1,114,070; elementary $900,234; and total state $49,018,018.

FOOTNOTE

1. McLure, William P. and Pence, Audra May. *Early Childhood and Basic Elementary and Secondary Education: Needs, Programs, Demands, Costs.* Special Study No. 1. National Educational Finance Project. Bureau of Educational Research, College of Education, University of Illinois at Urbana-Champaign, 1970.

CHAPTER FOUR

FURTHER ANALYSIS OF EQUAL EXPENDITURE FOR EQUAL EFFORT

In this chapter we continue the analysis of the "effort" factor and then proceed to build several grant-in-aid models all of which utilize this notion of local school district effort as central to their operations. First, however, we shall address ourselves to two general questions. In chapter three we raised the question of whether "all formulas are alike." In this chapter we shall provide further commentary on this issue. Secondly, we turn to the very important question of whether effort formulas can be expected to aid the poorer school districts and thus contribute to equalizing educational opportunity. Having provided some partial answers to these general questions we then explicate several different grant-in-aid models, indicating in turn the basic details of each proposal, the amount of funds needed to support each proposal, and something of the effects of these different "effort" models on selected districts. Complete print-outs showing the effects of these different effort models on all districts in Illinois are available for inspection in Springfield. Application should be made to the Department of Fiscal Management or the Department of State Relations, Office of the Superintendent of Public Instruction.

Are All Formulas Alike?

In chapter three we demonstrated that no particular formula type, i.e., Strayer-Haig Equalizing, Resource Equalizing, Percentage Equalizing, etc., has any *necessary and inherent superiority* in solving the basic equity problems of school finance in the state. Further, it may well be that the specific formula type is not nearly as important as the proportions of state to local funds in the allocation process. There is a body of research that supports the notion that the greater the proportion of state funds the less the disparity problem irrespective of the formula types used in the several states. (1) At the present time, however, we must consider this more a well supported hypothesis than a law-like generalization. We do not wish, however, to leave the reader with the impression that either the choice of formula type, or more importantly, the choice of specific parameters within a given formula is unimportant to a particular school district or to groupings of like districts. In an earlier contributed paper a demonstration was offered of how various formula types could be engineered to deliver more funds to the poorer districts *if* that was the desired policy goal. (2) In this chapter we shall simply use the Chicago school district as an example of how different formula types and different parameters within a formula can affect a single school district.

Let us assume that the State had before it a choice of adopting either the resource equalizer formula or the percentage equalization formula. Using the resource equalizer formula from Chart six in chapter three and the Chicago data from table one of that chapter we have:

$$\begin{aligned} (\$50{,}000 - \$23{,}551) \quad & (.023) \quad (516{,}571) = \\ (\$26{,}449) \quad & (.023) \quad (516{,}571) = \\ (\$608.33) \quad & (516{,}571) = \$314{,}245{,}636 \end{aligned}$$

Now let us look at the percentage equalization formula. We must first, however, make one change in the formula presented in Chart number six. The percentage equalization formula as used in New York, Rhode Island, etc., is not quite the same as the one provided in Chart six. As the formula has normally been adopted in these states, the "percentage" calculated in the first portion of the formula is multiplied by a per pupil expenditure figure, usually current operating expenditure per pupil. Thus the formula would read:

$$\text{State Aid} = \left[1.00 - .44 \left(\frac{\text{Dist. Av.}}{\text{State Av.}} \right) \right] \quad (E) \quad (WADA)$$

To arrive at a local expenditure per pupil for the purpose of this exercise we have subtracted the $127 of federal categorical aid and thus arrived at E = $945 per WADA from state and local sources. The choice of what is and what is not included in (E) varies from state to state that use the percentage equalization type of formula.

Using this formula we then have:

$$\begin{aligned} 1.000 - .44 \frac{23{,}551}{21{,}392} \quad & (\$945) \quad (516{,}571) \\ 1.000 - (.44)(1.101) \quad & (\$945) \quad (516{,}571) \\ (.516) \quad & (\$945) \quad (516{,}571) = \$251{,}890{,}351 \end{aligned}$$

On this showing Chicago would be better off with the resource equalizer than with the percentage equalization. However, a legitimate objection can be raised to such a comparison since a crucial constant in the two formulas is not the same. Suppose the state average valuation per WADA is *not* used in the percentage formula but rather the key district valuation of $50,000 per WADA is used in both formulas. Our calculations would then be:

$$1.000 - .44\left(\frac{23{,}551}{50{,}000}\right) \quad (\$945) \quad (516{,}571)$$

$$1.000 - (.44)(.471) \quad (\$945) \quad (516{,}571)$$

$$(.793) \quad (\$945) \quad (516{,}571) = \$386{,}911{,}679$$

Using *these* parameters Chicago is obviously better off with the percentage equalization formula than with the resource equalizer formula. A reasonable hypothesis would be that urban areas are usually better off with the percentage equalization formula than with the resource equalizer since the latter formula depends heavily upon an educational tax rate which is often depressed in urban areas due to the presence of heavy noneducational spending. In the next section of this chapter we shall show, however, that weightings can be applied to the pupil count in such a fashion that urban areas may profit from the adoption of a resource equalizer formula.

The state grant-in-aid formulas adopted in most of our 50 states are simply mathematical statements which make state aid a function of certain variables, usually property valuation and pupil enrollments counted in various ways. Occasionally, but not always, one will find that state aid has also been made a function of local district tax effort, expenditure levels, cost differentials, density and/or sparsity factors, etc. The relation of these variables to state aid is governed by constants in the formulas which are continually manipulated by the executive and legislative branches of government to produce "acceptable" distributions of money. Recently the judiciary is also laying claim to a stake in this manipulation process.

We wish to stress the fact that the grant-in-aid models presented in this chapter are considered "acceptable" rather than "optimal." That is, the effort models offered here have been constructed with an eye to their political and legislative acceptability, rather than with some abstract "optimum" or "best" criteria in mind. This is true of some of the allocation systems discussed in other chapters as well. Whether this is, or is not, a useful posture for professional educators to assume is surely a moot point. Critics have argued that educators tend to "compromise before the fact" and thus often end up with less than "half a loaf." (3) Supporters of the "acceptable" strategy have argued, conversely, that distribution systems had better be framed with political and legislative realities in mind or they will never receive serious consideration.

Thus while all formulas are not alike, it does not follow that there exists some "best" or "ideal" formula, some ultimate equation, which will solve all the allocation problems of public education. "Formulas" are not much more than compromises arrived at by the reconciliation of conflicting group demands through the political process. It is therefore very doubtful that some high priest or group of high priests will ever be able to hand down "the" formula from upon high to the waiting masses. Indeed, it would not be an especially favorable sign in a democratic society if such an elite were allowed to dictate their wishes. With this caveat in mind we shall describe some alternative "effort" models. Before we do that, however, we must address a second general question concerning effort models.

Table 1

Tax Effort by Wealth Quartiles

Unit Districts, 1965-71

Year	Fourth (Poorest) Quartile	Third Quartile	Second Quartile	First (Richest) Quartile	4-1
1965	2.2937	2.1035	2.2060	1.7303	.5634
1966	2.3508	2.1607	2.2600	1.7744	.5764
1967	2.5354	2.2970	2.2740	1.9346	.6007
1968	2.6338	2.3798	2.2660	1.9999	.6339
1969	2.6857	2.5262	2.4600	2.1365	.5492
1970	2.8637	2.6912	2.6220	2.2249	.6388
1971	2.9608	2.5731	2.5340	2.3247	.6361

Will Effort Formulas Help Poor Districts?

This is a fair question, but a very difficult one to answer. Certainly some studies do hold that all "local incentive" type grants-in-aid are doubtful ways to accomplish equalization of educational opportunity. (4) The question appears to separate into two parts. First, what will be the initial or short-range effect of adopting such a formula and second, what will be the long-range effects? We can cast some limited light upon these questions by inspecting tax effort data for a time series in Illinois. In Tables 1, 2, and 3, we have assembled tax rate data by wealth quartiles for the period between 1965 and 1971. Each quartile consists of the districts which contain one-fourth of the students ranked by wealth. Our procedure was simply to rank the districts from low to high in terms of per student property valuation and then cumulate by enrollments toward the top, breaking at each quartile. We think this procedure is superior to an analysis which allows each district to have the same weight in the investigation. It does not seem logical to us to allow Chicago, for example, to have the same weight as the smallest district in Illinois in terms of enrollments. The tax rates indicated are weighted averages, that is, we took the expenditures for all educational purposes in the quartile and then divided by the total property valuations in that quartile.

Table 2

Tax Effort by Wealth Quartiles

High School Districts, 1965-71

Year	Fourth (Poorest) Quartile	Third Quartile	Second Quartile	First (Richest) Quartile	4-1
1965	1.6063	1.5089	1.3543	1.1344	.4719
1966	1.6648	1.5172	1.3713	1.1721	.4927
1967	1.7909	1.5933	1.4770	1.2647	.5262
1968	1.8714	1.6999	1.5249	1.3264	.5450
1969	1.9543	1.8205	1.6263	1.4125	.5418
1970	2.0888	2.0305	1.8260	1.5234	.5654
1971	2.1664	2.0200	2.0843	1.6387	.5277

Table 3

Tax Effort by Wealth Quartiles

Elementary Districts, 1965-71

Year	Fourth (Poorest) Quartile	Third Quartile	Second Quartile	First (Richest) Quartile	4-1
1965	1.7978	1.6915	1.7019	1.3608	.4370
1966	1.8154	1.7946	1.7527	1.4389	.3765
1967	1.9596	1.8825	1.7829	1.5083	.4513
1968	2.0009	1.9479	1.8499	1.5894	.4115
1969	2.1088	2.0781	1.9068	1.7085	.4003
1970	2.2721	2.2565	2.0925	1.8607	.4114
1971	2.3044	2.2935	2.1137	1.9932	.3112

The first relationship we can observe from the tables is that the wealthiest quartile has the lowest tax effort, and the poorest quartile has the highest tax effort. In fact, with a very few exceptions in the tables, the relationship of wealth to effort has been linear among the quartiles in every year since 1965. Thus we can conclude that the adoption of any of the effort models mentioned in this chapter and elsewhere in this report would, *ceteris paribus*, favor the poorer school districts. We are also, however, interested in trends through time. The last column in the tables indicates the differences between the wealthiest quartile and the poorest quartile. For unit districts and high school districts the difference has widened slightly but not enough to be significant. This is to say, that under the conditions imposed by the Strayer-Haig formula the poorest quartile has continued to raise its tax effort almost proportionally with the wealthiest quartile. For elementary districts the differential has narrowed somewhat and inspection of Table 3 will show that this is because the wealthiest quartile has been raising its local effort faster than the poorest quartile.

Critics of effort formulas have alleged that when a bonus is placed into the formula for higher effort, it will be the wealthier districts that will respond to that stimulus rather than the poorer districts. There appears to be no direct way of testing this hypothesis since past experiences may not hold under the conditions of a new formula. All that we can say at this point is that there is no evidence in unit districts and high school districts, and only slight evidence in elementary districts that the wealthier districts have been raising their effort faster than the poorer districts. However, it should be admitted that they might do so under the conditions created by a new formula. On the basis of very limited evidence, therefore, we conclude that the initial or short-range effect of an effort formula would be to help the poorer districts but that this equalizing effect might be weakened at some later point in time due to greater effort being exerted by the wealthier districts. Effort formulas are no panacea, they are only short-run solutions at best.

The Resource Equalizer with a Variable Compensatory Weighting and a Mandatory Roll-Back Provision (5)

This model is based upon eight assumptions as follows:

1. The property tax would have to remain a substantial part of the base for the support of schools in the foreseeable future if only because of the cost to the state in replacing this major source of revenue.

2. That district effort, as measured by tax rates, should be rewarded, but that the state grant-in-aid model should require *high tax rates to be lowered* while simultaneously allowing *low tax rates to be raised*. Such an apparatus will also allow property tax relief in districts which really need such relief. We think that would be preferable to the "across the board" relief such as is contemplated in some current property tax "freeze" proposals.

3. No formula that was based upon a recognition of district effort could be accomplished in a single year without an undue disruption of the present structure and without greatly increased cost.

4. Disruption of the present structure can be minimized and acceptance of the new structure can be maximized by providing "save-harmless" provisions in the new legislation at least until districts have time to adjust.

5. That it was impossible to equalize support at the highest expenditure level but that it should be equalized so that a quality education could be purchased for all.

6. Variations in support by the state should be based on justifiable measureable variations in need and that the density of such needy students should be a factor in the new distribution formula.

7. That some machinery should be maintained to support experimentation, research, and innovation, based on effort above the allowable maximum tax rates, but that this should be separate from the basic formula so that the entire support plan would not be jeopardized if this step was in some way disallowed because of constitutional questions.

8. Some categorical aids should be continued until the effect of the new system of finance can be studied as it relates to these special purpose grants.

9. All operational aspects of schools should be in the support package rather than just the educational fund.

The algebraic and arithmetic statement of this model is provided in chart number 1. Please note the three "additional provisions" at the bottom of the page which are not included in the algebraic state-

Chart 1

Resource Equalizer Formula with Compensatory Weighting and Property Roll-Back Provisions

$$G = CWADA \left[R \quad (V_e - V_i) \right]$$

where:

CWADA = the sum of: high school ada (1.25) + 1-8 ada + kindergarten ada (.50) +

$$\text{title one eligibles} \left[.375 \quad \frac{\text{per cent in district}}{\text{per cent in state}} \right]$$

note: the title one weighting may not exceed .750.

R = the district tax rate for all purposes except bond and interest, rent fund, transportation, and capital improvement. **Maximum rates** are: $3.00 for 12 grade districts; $1.95 for K-8 districts, $1.05 for 9-12 districts.

V_s = the guaranteed valuation per CWADA as follows:

$ 42,000 for 12 grade districts
$ 64,615 for K-8 districts
$120,000 for 9-12 districts

V_1 = the valuation per CWADA in the district

additional provisions:

1. Phase-in: Districts shall receive only 25 per cent of the calculated increase in any year, except they may receive a proportionate increase if the pupil population increases.
2. Save-harmless: In the first year of operation districts may use either the old formula or the new formula, whichever is greater.
3. Property Tax Roll-Back: Districts with tax rates as defined above in excess of $3.00, $1.95, and $1.05 must, after the first year of operation of this formula, **reduce their tax rates by 25 per cent of the amount by which they exceed the maximum rates.** Within a four-year period these districts will thus be required to reduce their tax rates to the maximums indicated.

ment. Table 4 then provides an illustration of the effect of this model upon nine selected school districts in the state. It should be noted that while the secondary districts receive large increases in state aid under this model they are also required to roll back their local property tax rates. We thus believe that this particular model will help solve the serious equity disputes between taxpayers in dual districts and taxpayers in unit districts. Assessment variation and some districts increasing their tax levies will cause future year cost to change but it should be possible to fund the four-year increase in funds for education called for by this model at an annual cost of 165 to 233 million.

Table 4

Effect of Resource Equalizer Formula Upon Selected Districts and Estimate of Cost

District	72-73 Present Formula	73-74 Proposed Formula	Per Cent Change	Tax Rate Roll-Back
Salt Creek (E.—DuPage)	182,703.09	247,156.24	35.27	.020348
Westfield (E.—Clark)	60,492.00	69,798.93	15.38	None
Wood Dale (E.—DuPage)	610,644.65	788,881.60	29.18	.020085
Oak Park-R.F. (S.—Cook)	552,866.27	1,772,601.51	220.62	.016491
Oak Lawn (S.—Cook)	732,548.49	1,826,682.04	149.35	.016711
Peotone (U.—Will)	362,279.88	391,902.96	8.17	None
Chicago (U.—Cook)	197,086,961.04	244,747,642.06	24.18	None
Champaign (U.—Champ.)	3,851,229.49	4,365,661.96	13.35	None
Edwardsville (U.—Madison)	2,188,301.62	2,395,983.12	9.49	None

Estimated Cost in 73-74: $233,254,891 (new dollars)

Suggested Legislation

We have attempted to draft some of the legislative language that would be necessary to bring this model into existence. The first part contains the language necessary to amend Section 18-8 of *The School Code* and the second portion contains an outline of legislation necessary to achieve the goals contained in assumption number seven above. This legislation would provide a means of exceeding the maximum rates in certain districts if it be the will of the citizens in those districts that this be so. The real value of such a model as this would be that communities could, with the same effort, expend the same funds except for districts of extreme wealth and those districts educate less than six per-cent of the children of Illinois. Thus we feel that while this model does not achieve *complete* "fiscal neutrality" it is a reasonably good approximation of that goal.

A Bill to Provide for Appropriation of Common School Funds to School Districts

Amends Section 18-8 of the *School Code*
Copy the present bill (1972-18-8) and then add —

or a district may be paid as follows with all reporting dates and payment dates in the above statute remaining as they are.

The amount to be apportioned shall be determined for each county by school district as follows.

Each district shall receive aid based upon the number of weighted pupils in average daily attendance.

1. Weighted Average Daily Attendance (WADA) shall be calculated as follows:

A. Days of attendance shall be counted only for sessions of not less than 5 clock hours of school work per day under direct supervision of teachers with pupils of legal school age through grade 12.

B. Pupils enrolled in a public school for only a part of the school day may be counted on the basis of 1/6 day for every class hour attended pursuant to such enrollment.

C. Days of attendance may be less than 5 clock hours on the opening and closing of the school term and upon the first day of pupil attendance if the first day of the term is utilized as an institute or teachers' workshop.

D. A session of 4 or more clock hours may be counted as a day of attendance upon certification by the county superintendent of schools, and approved by the Superintendent of Public Instruction to the extent that the district has been forced to use daily multiple sessions.

E. A session of 3 or more clock hours may be counted as a day of attendance when the remainder of the school day is utilized for an in-service training program for teachers, up to a maximum of 5 days per school year, provided a district conducts an in-service training program for teachers which has been approved by the Superintendent of Public Instruction.

F. A session of not less than 1 clock hour teaching of hospitalized or homebound pupils may be counted as ½ day of attendance by such pupils.

G. A session of at least 4 clock hours may be counted as a day of attendance for first grade pupils, and a session of 2 or more hours may be counted as ½ day of attendance by kindergarten pupils.

H. For handicapped children below the age of 6 years who cannot attend full day because of handicap or immaturity, a session of not less than one clock hour may be counted as ½ day of attendance.

I. A recognized kindergarten shall not have more than ½ day of attendance counted in any 1 day. However, kindergarten may count 2½ days of attendance in any 5 consecutive school days. Where a kindergarten pupil attends school for 2 half days on any one school day, such pupil shall have the following day as a day absent from school, unless the school district obtains permission in writing from the Superintendent of Public Instruction. Days of attendance by tuition pupils shall be accredited only to the districts that pay the tuition to a recognized school.

J. The number of pupils in attendance in a district who are eligible under Title I of the Elementary and Secondary Education Act of 1965 shall result in an adjustment of the weightings calculated as follows. The number of pupils eligible under Title I shall increase the weighting by .375 for each student adjusted by dividing the per cent of pupils eligible under Title I in the district by the ratio of pupils eligible for Title I in the state to the number of pupils in the state. In no case shall this adjustment result in a greater weighting than .75 per student.

2. The state grant shall be determined as follows. So much of the balance of the remaining to be apportioned after computing the amounts provided in Sections 18-3 through 18-7 as shall be required shall be assigned to the several counties for the benefit of the several school districts therein for payment of the several county claims composing the State report of claims submitted under Section 18-12 together with any additional amount assigned under the provisions of Section 18-7 to any district not included in the retirement system created by Article 16 of the "Illinois Pension Code" as the same may from time to time be amended. If the money available in the common school fund for this purpose is less than the amount required under the provisions of this Act, the apportionment to each county shall be proportionately reduced.

A. The state shall guarantee the amount of money that a district's tax rate as limited in other sections of this bill would produce if every 12-grade district had an assessed valuation equal to $42,000 per weighted ADA pupil; every K-8 district had an assessed valuation of $64,615 per weighted ADA pupil; and every 9-12 district had an assessed value of $120,000 per weighted ADA pupil.

B. The tax rate to be used shall consist of all district taxes extended for all purposes except Bond and Interest, Rent Fund, and Transportation.

C. Districts may levy the combined tax rates currently authorized for the funds not exempted in "B" above, or a maximum without referendum of $3.00 for 12-grade districts; $1.95 for districts having grades K-8 only; $1.05 for districts having grades 9-12 only, whichever is greater for the first year of operation.

D. The state aid shall consist of the guaranteed assessment in "A" above less the assessment per weighted pupil which a district actually has multiplied by the actual tax rate as described in "B" and "C" above levied by the district up to $3.00 per 12-grade district, $1.95 per K-8 district, and $1.05 per 9-12 district.

E. Each district shall receive only 25% of the calculated increase in any year, except it may receive proportionate increase if the pupil population increases.

F. Any district that has a combined tax rate in excess of the maximum of $3.00 for 12-grade districts, $1.95 for K-8 districts, and $1.05 for 9-12 districts shall, after the first year of the operation of this formula, reduce its tax rate by 25% of the amount by which they exceed the above rates.

A Proposed Law to be Separate From the Common School Bill

When a school district has budgeted the full amount of operational funds allowed at the maximum tax rate permitted by Section 18-8, then that board of education may increase its expenditure for innovative programs or research or experimental programs or other enriching experience by either of the following methods.

1. Upon a direct referendum of the people the necessary tax to increase expenditure by 15 per cent for the above purpose may be levied.

2. If at the time of the enactment of this act the district is authorized to tax beyond the levels per $100 of assessed value of $3.00 in unit districts; $1.95 in elementary and $1.05 in high schools, the board may pass a resolution to keep a tax rate that will produce up to the amount of funds to expend 15 per cent above the established rate subject to a back door referendum provision such that any taxpayer in such district may, within 30 days after such resolution is made, file with the secretary of the board of education a petition signed by not less than 10 percent or 2,000, whichever is the lesser, of the voters of the district requesting the submission of the resolution to a referendum on whether or not the board resolution shall stand.

Three-Tiered Power Equalizer

The distribution model presented on the following pages is based upon the following assumptions:

1. A radical change from the existing state aid distribution model will be hard to sell to the legislature and the public.

2. A distribution model which proposes to equalize per pupil expenditure cannot and should not be allowed to accomplish this task in a single year.

3. A major increase in state aid, while not accompanied by a proportionate decrease in local tax revenues, will provide a "wind-fall" for many districts, and such a "wind-fall" should be avoided when it is possible to do so.

4. The property tax should remain as a substantial part of the base for the support of the public schools, however, the inequalities inherent in such a tax should be gradually eliminated.

5. The amount of extra local tax effort needed to acquire a basic educational operating expenditure should be minimized over time.

6. A new distribution model should level up per pupil expenditure in low wealth-high effort school districts while holding expenditure levels in very wealthy school districts relatively constant.

7. The State of Illinois is not now ready to include differential weightings in a state aid formula. It is felt that these weightings should be included in a distribution formula, however, only after a year of study and preparation.

The basic model is presented in Chart number 2. Table 5 then provides an illustration of the effect of this model upon nine selected school districts in the State.

Chart 2

Three-Tiered Power Equalizer Formula

Tier I
(Basic Grants)

Aid equals the greater of the following plus a density bonus of 4%/8%/12%/16% × $520 × WADA depending on the size of the district.

Special Equalization

$$\text{Aid} = (\$520 \times \text{WADA} - \text{QR} \times \text{AV}) \times 119\%$$

Alternate Method

$$\text{Aid} = \left(\frac{\text{State Ave. AV/ WADA}}{\text{District AV/ WADA}} \times \$120 \times \text{WADA} \right) \times 119\%$$

Flat Grant

$$\text{Aid} = (\$48 \times \text{WADA}) \times 119\%$$

where

QR = 1.08% for unit districts, .90% for dual districts with less than 100 WADA, and .84% for dual districts with more than 100 WADA.

AV = District assessed valuation.

WADA = District weighted average daily attendance with weightings of .50 for kindergarten, 1.00 for grades one through eight, and 1.25 for grades nine through twelve.

Tier II

(Effort Grants)

$$\text{Aid} = [(R_1 - \text{QR}) \times F \times \text{WADA}]^{**} - (R - \text{QR}) \times .6^{*} \times \text{AV}$$

where

R = District Educational Fund tax rate.

QR = District Qualifying Rate

AV = District Assessed Valuation

WADA = Average Daily Attendance with same weightings as above.

F = Guaranteed foundation rate for each .01% in tax rate above QR.

* Sets the AV/WADA cut-off point above which districts would not receive additional aid under Tier II. The points are: $Y_1 = \$50{,}000$; $Y_2 = \$83{,}333$; $Y_3 = \$166{,}666$; $Y_4 = \$150{,}000$; $Y_5 = \$183{,}333$.

** QR, R_1 and F are limited as follows:

	Duals		Duals		Unit		All
Year	R_1	QR	R_1	QR	R_1	QR	F
1	≤2.82%	.90%	≤2.76%	.84%	≤3.00%	1.08%	$ 3.00
2	≤1.927%	.775%	≤1.882%	.73%	≤2.232%	1.08%	5.00
3	≤1.373%	.65%	≤1.443%	.62%	≤1.903%	1.08%	7.00
4	≤1.165%	.525%	≤1.15%	.51%	≤1.72%	1.08%	9.00
5	≤ .92%	.40%	≤ .92%	.40%	≤1.60%	1.08%	11.08
Beyond	Same		Same		Same		+$1.00 Annually

Tier III

(Local Leeway Controls)

The local districts will be allowed to keep their tax rate maximum with referendum at the current levels of 4.00% for unit districts and 3.00% for dual districts.

As the R in the Formula for Tier II is reduced, the local district begins to have more leeway but less state aid. This has been done to encourage the local districts to decrease their local property tax rates.

It should be noted that an additional provision has been included that provides that when any increase in State funds exceeds twenty per cent of the previous year's aid, then that district will receive only that portion of its entitlement which does not exceed this limit. This provision is included to insure that those districts which are entitled to a large increase in state aid will receive it over a period of time. The purpose of this limit is two-fold: (1) It will not allow relatively poor districts to receive more state aid money than they can efficiently handle; and (2) it will provide for a leveling up of

Table 5

Effect of Three-Tiered Power Equalizer Formula Upon Selected Districts

District	72-73 Present Formula	73-74 Proposed Formula	Per Cent Change
Salt Creek (E.—DuPage)	182,703.09	207,364.56	13.49
Westfield (E.—Clark)	60,492.00	62,407.52	3.16
Wood Dale (E.—DuPage)	610,644.65	732,773.58	20.00
Oak Park-R.F. (S.—Cook)	552,866.27	552,866.27	0.00
Oak Lawn (S.—Cook)	732,548.49	870,772.60	18.86
Peotone (U.—Will)	362,279.88	434,735.85	20.00
Chicago (U.—Cook)	197,086,961.04	236,504,353.25	20.00
Champaign (U.—Champ.)	3,851,229.49	4,621,475.38	20.00
Edwardsville (U.—Madison)	2,188,301.62	2,625,961.94	20.00
Estimated Cost in 73-74: $137,886,117 (new dollars)			

education fund revenues available to the districts. The second feature can best be explained by the following example.

District	Category	Current Revenue Per WADA	Proposed Revenue Per WADA	Per Cent Increase
A	State	200	240	20.0
	Local	800	800	0.0
	Total	1,000	1,040	4.0
B	State	300	360	20.0
	Local	450	450	0.0
	Total	750	810	8.0
C	State	400	480	20.0
	Local	100	100	0.0
	Total	500	580	16.0

Notice that the poorer district (C) is allowed to increase its total revenue by 16% whereas the two wealthier districts (A and B) are allowed to increase their total revenue by four and eight per cent, respectively. (This example, of course, assumes that local revenues will remain constant.) This provides us with a sliding scale of increase which will eventually level up per pupil expenditure.

In Appendix C, following a table describing the characteristics of the selected sample districts, are three additional tables projecting the revenues available to these districts for a five-year period. These tables were generated based upon the following assumptions:

1. Each district will remain at the same assessed valuation per weighted pupil during this time.
2. Each district will continue to levy in the education fund a dollar amount which generates the same tax rate each year.

It should be noted that at the end of this five-year period the maximum allowable increase in the second tier is the same for both dual and unit districts and that the maximum education fund tax rate is the legal maximum rate allowed without referendum.

District Power Equalization (6)

District power equalization is an allocation system which is derived from a policy position of "equal support for equal effort" as opposed to policy positions of "minimum adequate support" and "full state funding." The allocation system requires the state to establish a schedule of tax rates with corresponding expenditure levels. Thus, all school districts which tax at a particular rate (that is, make equal

effort) would be guaranteed the same dollar amount per pupil for expenditures (that is, be supported equally). School districts adopting a greater tax rate would be supported in like manner at a greater expenditure level. The intent of the district power equalization scheme is to provide some local leeway regarding expenditure level while providing state protection against wide disparities in tax rates among districts which spend at the same level.

It should be noted that the commonly used measure of district wealth (assessed valuation per pupil) was not mentioned in the brief description of the district power equalization scheme. In reality, assessed valuation per pupil is a contrived measure which has been used in efforts to prevent wide disparities in tax rates and expenditure levels. Given the policy position of "minimum adequate support," the use of the wealth measure of assessed valuation per pupil is appropriate. However, if the objective is to affect a match between tax rates and expenditure levels, then it is no longer necessary to continue using the contrived measure of district wealth. In fact, impetus to discontinue use of the wealth measure may derive from acceptance, legally or morally, of the principle set forth in recent court decisions — "the rule is that the level of spending for a child's education may not be a function of wealth other than the wealth of the state as a whole."

In addition, it should be noted that the brief description of the district power equalization scheme did not make reference to a "key district." Instead, the establishment of a "maximum expenditure level" was advocated. The intent of this subtle difference is that attention should be focused upon the level of spending that the "wealth of the state as a whole" can support, rather than upon the level of spending that could be obtained from the "wealth of the Key district."

As has been pointed out earlier in the previous chapter, given a policy position of "equal support for equal effort" several formulae can be generated to yield the same results. Therefore, the purpose of presenting a separate section on "district power equalizing" is not to advocate a strategy for producing unique results, but is to present a different vantage point from which to approach the problem of designing an equitable allocation system for the distribution of scarce resources to the public schools.

Given this difference in perspective, it is necessary to present in detail the district power equalization scheme; to describe one method of transition from the present allocation system to district power equalization; to provide a summary of results from simulation of the transition method; and to point out strengths, weaknesses and areas of concern regarding the allocation system and the transition model.

Basic Considerations

1. Conversion from the present allocation system to district power equalization should be carried out over a multi-year interval. Immediate conversion would probably result in a severe financial burden upon the state and would probably result in wasteful spending in local school districts.

2. Conversion from the present allocation system to district power equalization should progress from *actual* practice relative to spending and taxing to some *desired* practice.

3. Conversion from the present allocation system to district power equalization should result in equalization across types of districts as well as within district types.

4. The district power equalization scheme permits each local district to select its level of spending and to tax at the specified rate. Therefore, reliable estimates of actual revenue required during the transition period are not feasible. However, an estimate of maximum revenue required for each year of transition can be obtained by assuming that each district will adopt compliance strategies which will result in maximum spending based upon current expenditure levels or current tax effort levels.

A Proposed Schedule of Tax Rates and Expenditure Levels

In Table 6 is shown a proposed schedule of "base tax rates" and expenditure levels per weighted pupil. Under the district power equalization system, if a school district selects a "base tax rate" (effort level) of $1.75/$100AV then the state would guarantee an expenditure level of $875 per weighted pupil regardless of the amount raised from the property tax. Conversely, if a school district should elect to spend $875 per weighted pupil, then that district must tax at a "base tax rate" of $1.75/$100AV. (Values not listed in Table 4-6 may be obtained by interpolation.)

Pupil weightings for elementary and secondary school pupils were derived from actual practice. Analysis of data over a four-year interval 1967-68 through 1970-71 revealed that expenditure levels for secondary pupils were approximately 1.6 times that for elementary school pupils. Therefore, elementary school pupils were arbitrarily assigned a weight of 1.0 and a weighting factor of 1.6 was assigned for pupils in grades 9-12.

Adjusted tax rates for each type of district are obtained from "base tax rates" by multiplying by an appropriate factor—1.0 for unit school districts, 0.6 for elementary school districts, and 0.4 for high school

Table 6

Proposed Schedule of Base Tax Rates and Expenditure Levels Per Weighted Pupil

Expenditure Level Per Weighted Pupil	Base Tax Rate (Per $100 AV)
$1,250.00	$2.50
$1,125.00	$2.25
$1,000.00	$2.00
$ 875.00	$1.75
$ 750.00	$1.50
$ 625.00	$1.25
$ 520.00	$1.08

districts. These factors correspond to the expected proportion of cost adjusted program to be provided by each type of district. These factors were derived from analysis of data for the four-year interval 1967-68 through 1970-71.

It should be noted that the schedule and procedures presented permit a matching of tax rates and expenditure levels across district types. This feature would permit adjustment of the schedule in future years without producing inequitable effects on one or more district types. Further, it should be noted that greater access to state revenue has been given to dual districts. This access to state revenue must be accompanied by legislation which would restrict in a proportionate manner access to revenues from local sources. That is, legal tax limits for elementary school districts must be rolled back to 0.6 that of unit school districts and high school districts to 0.4 that of unit school districts.

Should it be desirable to continue the practice of requiring greater effort in the dual school districts than in unit school districts, this can be readily accomplished by multiplying the adjusted tax rates in dual districts by an appropriate factor. For example, assume that the state would require additional effort for dual school districts, say 10% greater effort. Further, suppose that the districts in question wish to adopt an expenditure level of $1,125 per weighted pupil. In this event an elementary school district would be required to tax at a rate of $1.2485/$100AV ($2.25 x 0.6 x 1.10) instead of $1.135/$100AV ($2.25 x 0.6). The high school district would be required to tax at a rate of $0.99/$100AV ($2.25 x 0.4 x 1.10) instead of $0.90 ($2.25 x 0.4). However, it would seem that unification of school districts could be accomplished through legislation without the use of the penalty in the distribution system. Further, any attempt to revise the present funding system should take into consideration action which may be taken by the courts. Therefore, this proposal does not include the use of the penalty feature.

Impact on School Districts

If the specific district power equalization proposal were to be adopted, what would be the immediate consequences for Illinois school districts? In Table 7 is shown the configuration of school districts in relation to the schedule of base tax rates and expenditure levels as presented in Table 6. This configuration is based upon operating costs for 1970-71 and education fund tax rates for 1970.

Given this configuration of districts in relation to the proposed schedule of tax rates and expenditure levels, it is evident that some "leveling down" would occur. For example, there are 30 school districts with 34,522 pupils which are currently spending more than the maximum of $1,250 per weighted pupil as proposed. In order to conform to the schedule, these districts would have to undergo some "leveling down."

Table 7

Configuration of Districts in Relation to the Proposed Schedule*

	$2.50/$100 AV		$1.08/$100 AV			
	8	20948	13	4901	5	686
	1	6953	1	137	0	0
	0	0	2	897	0	0
	9	27901	16	5935	5	686
1250						
	64	189842	168	69724	5	820
			8	2280		
			192	867496		
	68	281018	368	939500	0	0
			schedule values			
			316	311903		
	1	4996	83	121603	2	2901
			202	539435		
	133	475855	601	972939	7	3721
520						
	0	0	1	133	0	0
	0	0	0	0	0	0
	0	0	1	1278	0	0
	0	0	2	1411	0	0

* Tax rates for elementary and secondary school districts have been adjusted proportionately to correspond to base rates as described earlier.

Property tax relief would be mandated in 142 districts with 503,756 pupils. Increases in property taxes would be mandated in 12 districts with 4,407 pupils.

The split-center cell indicates those districts which are currently spending between $1,250 and $520 per weighted pupil and taxing at an adjusted rate between $2.50/$100AV and $1.08/$100AV. Those districts above the dividing line ("schedule values") could elect to retain their present level of spending and increase taxes to correspond to the schedule value, or retain the present tax rate and reduce spending to correspond to the schedule value, or adjust expenditure levels and tax rates to affect a match between the two as proposed in the schedule. In any event this situation corresponds to a "leveling down" strategy. Those districts which fall below the dividing line ("schedule values") would be engaged in "leveling up" strategies.

It should be pointed out that the configuration of Table 7 does not reflect effects which may be produced by the "density bonus." This concept will be treated later in a discussion of cost differentials and pupil weightings.

Transition to District Power Equalization

As has been previously noted, this proposal advocates a match between tax rates and expenditure levels among districts of the same type and the establishment of comparable tax rates and expenditure levels across types of districts, further, this proposal advocates that transition be accomplished over a multi-year interval. An immediate transition is very likely to produce problems relating to the availability of resources, and in waste and inefficiency in the use of available resources. Hence, this proposal suggests that a five-year transition period be utilized.

It would seem necessary to require each district to specify the constant dollar level of spending and the corresponding tax rate that the district wishes to adopt at the end of the five-year interval. Guidelines could then be developed which would limit correction in tax rates to twenty per cent annually of the difference between the present tax rate and the specified rate for the terminal year of the transition period, expenditure levels would be adjusted to twenty per cent annually of the difference between the present expenditure level and the specified level for the terminal year of the transition period, and correction to the adjusted rates for elementary and secondary school districts be accomplished at twenty per cent annually.

Such a strategy would enable local school districts and the state to develop plans to optimize educational opportunities each year of the transition period. Since the district power equalization scheme does provide for local leeway regarding expenditure levels, it is difficult to ascertain what steps each district will take to affect a match between expenditure levels and tax rates at the terminal year of the transition period. However, provision should be made to ensure that local decisions are based primarily upon educational program considerations.

In terms of state planning for required resources, one could assume that all districts will take steps to maximize the costs of education and in this manner obtain a reasonable upper limit on state resources for each year of the transition period. Maximization of the cost of education may occur by retaining a given expenditure level and increasing tax rates to correspond to that expenditure level, or by maintaining a given tax rate and increasing expenditures to affect a match as specified in the schedule.

Critique of District Power Equalization

Any attempt to model behavior of more than 1,100 school districts relative to spending and taxing will in all probability be myopic. Nevertheless, efforts were made to construct a transition model that would simulate progression from the present allocation system to a district power equalization system as previously outlined. As a result of efforts to construct the simulation model and analysis of data from numerous simulation runs, the following observations seem noteworthy of consideration in attempts to design an allocation system.

1. District power equalization (whether by schedule or formula) would probably meet the principle of "fiscal neutrality." However, subsequent questions could be raised relative to the range of permissible expenditures; or to the correspondence between tax effort of the district and level of income of the district.

2. Although equal dollars (at a given effort level) do not guarantee comparable levels of education, it seems ironic that the argument is often used "effectively" to deny *an increase* to equal dollars for the education of children requiring *more than* the equal dollar amount in order to obtain a comparable level of education.

3. Although this committee excluded the matter of school district organization from its deliberations, the credibility of advocating greater access to resources for school districts whose size or organizational pattern may be less than optimal must be questioned.

4. Although the policy position of "equal support for equal effort" may be supported and advocated, a question must be raised relative to the "rationality of men" in changing from a policy position of "minimum adequate support" to "equal support for equal effort." Does the school district which is "conditioned" to high taxes and low expenditures "psychologically" have the option of reducing taxes? Would it be prudent to "freeze expenditure levels" (allow modest increases) for a short time interval and seek to align tax rates with those expenditure levels?

5. Although it is recognized that instructional costs vary with student needs, as a matter of priority it seems necessary to attend to the greater disparities first. Certainly accounting procedures should be established to provide baseline data relative to costs associated with instructional programs for pupils with special needs. Initial provision must be made for districts which have a greater than average percentage of pupils with special needs. The present "density bonus" probably attends to this concentration in a gross manner.

6. Implementation of a policy position of "equal support for equal effort" where resources are from state and local sources must ensure that each type of district must have equal access to local sources and to state sources. At present high school districts have greater access to local revenues than elementary or unit school districts and unit school districts have greater access to state revenues than elementary or high school districts. It is difficult, if not impossible, to determine the amount of local leeway necessary for each district type such that access to local funds is just equal to state funds to which access has been denied.

Cost differentials between types of districts can be obtained by analysis of data. However, these spending patterns may have evolved as a result of access to a source of greater yield than as a result of sound educational practice.

7. Second year effects of a formula which is derived from a policy position of "equal support for equal effort" must be analyzed as well as first year effects. Particular attention should be given to effects which may be derived from efforts to align equal access to state and to local revenues for elementary, secondary and unit school districts. Safeguards must be provided to ensure that elementary and secondary school districts are not given an "expenditure level" edge in the process of alignment of access to state sources as a result of past over-access to local sources.

8. As access to state sources of revenue are opened to elementary and secondary school districts, access to local sources must be diminished.

9. District power equalization and other formulae which are derived from a policy position of equal support for equal effort would allocate additional moneys to school districts which have limited access to local revenue. District power equalization (or other formulae) does not ensure that the quality of education will be improved. It is obvious that concerted action must follow reform in school finance to produce reform in the quality of education as a result of the additional dollars.

Operating Cost Formula

One final form of the equal expenditure for equal effort approach to equalization is the "operating cost formula". This formula expresses the idea that the most effective method of achieving equalization among school districts is to base state support upon *all* operating costs. It is based upon the following principles:

1) Educational opportunities should be substantially equal, but districts should have limited tax leeway left for enrichment and experimentation.
2) Necessary cost differentials should be included in the plan to meet individual needs created by variables.
3) All operating costs including special education, vocational education and transportation should be included in the plan and not be treated as add-ons.
4) School taxes should be relatively progressive with a high percentage of revenue coming from state and federal sources.
5) So-called "incentive" programs which allocate state and federal funds on the basis of locally raised revenue should be avoided as they tend to disequalize educational opportunities.
6) The level of funding should be determined by a professional estimate of the cost of a quality educational program rather than by the average of current practice.
7) Educational output per dollar should be maximized through efficient district organization and efficient schools within districts. (There should be no financial differential based upon type of district organization.)

8) Federal aid should serve two functions: the reduction of reliance on regressive taxes and the equalization of educational opportunities among the states.

9) Capital outlay expenditures are an integral part of the cost of education and should be funded by means of a program separate from operating cost funding.

10) Every district should be guaranteed the spending level of the last school year prior to the introduction of the new formula plus an increment.

11) Special grants should be available from the state office of education for research, experimentation and innovative projects.

The operating cost formula attempts to solve school finance problems by:

1) Establishing the guarantee level per weighted pupil at an adequate level—$1,350. This figure is somewhat higher than the projected average expenditure in Illinois. It can be argued that this is justified because average expenditures are depressed by a substantial number of districts that under the present finance system simply cannot raise enough money to do an adequate job--some cannot even comply with all of the legal provisions such as mandatory special education.

2) Weighting pupils according to need. The proposed weighting of pupils for state aid purposes is as follows:

1.30 — pre-school ages 3-5 (income under $4,000)
1.40 — kindergarten—grade 3
1.00 — grades 4-6
1.20 — grades 7-9
1.40 — grades 10-12
2.00 — compensatory education
1.80 — vocational—technical
1.20 — speech handicapped
1.90 — mentally handicapped (EMH—TMH)
2.40 — learning disabilities
2.80 — emotionally handicapped
3.25 — physically handicapped

These are the weightings proposed in the National Educational Finance Project with one exception. The weighting of pupils in kindergarten and the first three grades is proposed because preschool and early school education is critical in educational growth. Failure to adequately meet children's needs at this level likely produces problems both more difficult and more expensive to resolve at a later time. Weighting of pupils with special educational needs would supplant the present special education reimbursement program.

Weighting for bilingual programs is desirable but more information is needed to make a specific recommendation.

3) Using membership in counting pupils. The rationale for the use of average daily membership rather than average daily attendance has been stated so often in recent years that it will be omitted here.

4) Limiting local property tax rates. The whole concept of equalization implies limitations to narrow the gap between low and high resource districts. Further, as a matter of tax reform, the major source of school revenue should be shifted to the state level where more equitable taxes such as the income tax may be used in lieu of local property taxes.

5) Providing a local tax option to exceed the tax guarantee level by as much as 20%. This means that local districts could exceed the proposed guarantee level of $1,350 by 20% or $270 per weighted pupil, subject to local referendum. This is considered adequate for enrichment, experimentation and possible differences in cost due to geographical location.

6) Guaranteeing that higher expenditure per pupil districts will be permitted reasonable increases in expenditure per weighted pupil. The very small percentage of school districts whose expenditures exceed the proposed level should be permitted to maintain the current level of expenditure plus reasonable increases until such time as the guarantee level equals or exceeds their expenditures.

7) Eliminating the cost of bond repayment, school construction and other major capital outlays from operating revenues. Both operating and capital outlay expenditures are made from several of the multiplicity of funds under the present system. Borrowing among and between funds, deficit transfers from one fund to another and shifting of expenditures from one fund to another

promote unnecessary complexity and confusion. All operating costs should be paid from a single operating fund and all nonoperating costs should be paid from other funds.

Shifting from an inadequate local property tax-based school finance system to an adequate, state tax-based system will require a massive increase in state appropriations for public elementary and secondary school education. Although this could require a doubling of the income tax rate, it would relieve the increasing burden placed on the unfair and unpopular property tax.

Implementation of the operating cost formula could be made over some agreed time span such as four years. Several factors can be adjusted or phased in over such a time period to reduce the financial impact on the state and to promote better use of funds through more planning time at the local level. One possible adjustment is inclusion of a participation rate. Under this adjustment, a district would not receive its full entitlement if it failed to levy the full participation rate of $3.00 (unit), $2.00 (elementary) or $1.00 (secondary). For example, if a unit district was entitled to $900 per weighted pupil but only levied $2.00, it would receive $600 per pupil (⅔ of $900). The ⅔ is determined by dividing the district rate by $3.00; in this case, $2.00 ÷ $3.00 = ⅔.

Actual attendance figures for special education pupils are not available in exactly the form required by the operating cost formula. However, the Office of the Superintendent of Public Instruction has organized special education attendance data into three groupings which provides an approximation of the data needed. Estimated cost to the state with the participation rate adjustment is $2,223,463,450 based upon 1969 assessed valuations, 1970 tax rates and 1970-71 weighted average daily attendance.

The basic provisions of legislation to implement the operating cost formula are outlined below:

1) Combine education, building, transportation, municipal retirement, textbook and playground rates and funds to form the "Operating Fund".
2) Eliminate all capital outlay expenditures from this new "Operating Fund".
3) Continue Bond and Interest, Rent, Site and Construction, Capital Improvement and Working Cash Funds.
4) Abolish fire and safety and liability tax rates.
5) Establish guarantee level at $1,350.
6) Establish necessary tax rates for the program.
7) Permit voter approval of a limited leeway rate not to exceed 20% of the guarantee level. (Those with current rates in excess of the 20% would have rates frozen and reduced proportionately to 20% as the guarantee level became high enough.)
8) Automatic increase should be built in (rising AV per pupil, "cost of living", fixed percentage, % based on average operating cost).
9) Use the weighting described earlier in this proposal.
10) Base distribution on average daily membership rather than average daily attendance.
11) Guarantee no loss in revenue to any district and allow an increment equal to 10% of the guaranteed level the first year.
12) Authorize *full* participation; not limited by local voter approval.

Reforming the revenue structure of Illinois should shift the major thrust of the tax program from property to income taxation and make the property tax more fair.

One of the real dangers to school districts is a haphazard, partial implementation of measures to shift from property to income taxation. The process of eliminating certain property from taxation without replacement of the lost revenue which it would generate and without provision for revenue growth in an inflationary economy will surely move us toward financial or educational bankruptcy.

Reformation of the Illinois tax structure should encompass the following concepts:

1) Eliminate personal property taxes.
2) Base state revenue on income tax.
3) Limit property tax rates.
4) Use federal funds to offset local (note state) revenue production to help shift from a property tax based to an income tax based revenue system.
5) Strengthen state power to reassess and to equalize at the assessing level, such as township.

In addition to the appropriations for schools made by the General Assembly, about 60% of all property taxes extended are for schools. Schools are more likely to be adequately financed if there is a state and local revenue system that is efficient and gives equitable treatment to taxpayers. Many citizens who

are unfairly treated in taxation, such as older property holders on low fixed incomes, show their displeasure and plight by voting against school referenda. The percentage of successful school referenda has decreased during each of the past four years.

When property taxes for schools are reduced, income taxes should be used to replace losses in funds. Implementation of the previously described formula would help resolve this problem. Property taxes should remain for school purposes until there is a suitable substitute which will allow taxation for school purposes on persons residing within the district. Much of the progress in education has been initiated by school districts which did something more than the ordinary; such innovative activities usually require additional funds. However, it is not necessary to place the major burden of financial support of schools upon the local property tax to permit the exercise of these options. Each district should have the option, with voter approval, of raising a limited dollar amount per pupil for such purposes. In addition, special grants should be available from the State Office of Education for research, experimentation and innovative projects.

The major portion of public elementary and secondary school financing, state and local, is based on assessed valuation per pupil. Fair treatment of taxpayers requires equal assessments for schools and other

Chart 3

Operating Cost Formula with Weighted Average Daily Membership

$$G = CWADM \times \$1{,}350 \times \left(1 - \frac{V_1}{V_g}\right)$$

where:

CWADM — the sum of the weighted average daily membership

V_1 — the valuation per CWADM in the district

V_g — the guaranteed valuation per CWADM as follows:

$45,000 for 12-grade districts
$67,500 for K-8 districts
$135,000 for 9-12 districts

additional provisions:

1. Save-harmless: Districts would be assured of no loss in operating funds during a phase-in period.
2. Property Tax Roll-Back: Districts with tax rates for all purposes except bond and interest, rent fund and capital outlay which exceeded certain maximums would be required to reduce such rates. Basic maximum operating rates of $3.00, $2.00 and $1.00 for 12-grade, K-8, and 9-12 districts, respectively would be established. Districts could exceed these rates to produce a maximum of 20% of $1,350 more, subject to local voter approval.

purposes. There is ample evidence in county sales ratio studies to prove great disparity between assessed and bonified sales value in every county in the state. If assessed valuation per pupil is to continue as a significant factor in measuring school finance resources, these disparities should be removed. Under the present system substantially unequal assessments mean that millions of dollars each year are going to the wrong places. A state agency should have the power to equalize by taxing units rather than by counties and the right to assess property where poorly done by local assessors and to charge the local unit for such service. Errors in local assessments cannot be corrected my multiplication factors. The assessments need to be properly made in the first place.

Table 8

Effect of Adjusted Operating Cost Formula Upon Selected Districts

Two figures are shown below for comparative purposes. The "entitlement" figure is the amount calculated by the formula. The "adjusted" figure is the entitlement figure multiplied by a participation rate. The participation rate is the ratio of the district's operating rate to the full participation rate of $3.00, $2.00, or $1.00 (unit, elementary, and secondary).

Some tax rates would be reduced, especially in high school districts.

District	Present Allocation (Hubbard-Hickrod)	Proposed Entitlement	Proposed Adjustment	% Change to Adjustment
Salt Creek	$ 192,538	$ 1,142,562	$ 933,473	384
Westfield	48,074	234,283	141,858	195
Wood Dale	576,443	2,051,474	1,885,305	227
Oak Park - River Forest	468,390	4,587,785	4,587,785	879
Oak Lawn	678,175	3,706,300	3,706,300	446
Peotone	331,427	1,202,438	878,180	165
Chicago	191,303,016	669,160,605	512,916,513	168
Champaign	3,796,558	13,540,605	10,702,385	182
Edwardsville	2,011,754	6,553,224	4,593,810	128

Estimated Cost to State for Full Implementation Using Adjusted Calculation: $2,223,463,450

Proposed weightings were not available on a district basis, therefore, the weightings developed by OSPI were used. The effect of using more refined data is not assessable at this time.

The proposal also contemplated using average daily *membership* rather than *attendance* but such information is also unavailable. Use of WADM would obviously increase the cost to the state.

NOTES AND REFERENCES

1. For supporting evidence see Briley, William P., "Variation Between School District Revenue and Financial Ability" in *Status and Impact of Educational Finance Programs*, National Educational Finance Project, 1971; see also Grubb, W. Norton and Michelson, Stephan, *States and Schools*, 1972, Center for Educational Policy Research, Harvard Graduate School of Education; for conflicting evidence see James, H. Thomas, Thomas, J. Alan, and Dyck, Harold J., *Wealth, Expenditure and Decision-Making for Education*, 1963, Stanford University School of Education.
2. Hickrod, G. Alan, Chaudhari, Ramesh, and Tcheng, Tse-Hao, "Definition, Measurement, and Application of the Concept of Equalization in School Finance," *Volume One, Contributed Papers of the Superintendent's Advisory Committee on School Finance*, 1971, Springfield; also available as ED 060 544 in the ERIC system. An abbreviated version appears in *Proceedings of the 15th National Conference on School Finance*, 1972, NEA, Washington, D.C.
3. Coons, John E., Clune, William H., and Sugarman, Stephen D., *Private Wealth and Public Education*, 1970, Harvard University Press.
4. See Johns, Roe L., Alexander, Kern, and Jordan, K. Forbis, *Financing Education: Fiscal and Legal Alternatives*, 1972, Merrill Publishing, especially chapter nine; see also Grubb, W. Norton and Michelson, Stephan, *op. cit.*
5. An abbreviated version of this model also appears in *Financing for Effective Education in Illinois, Final Report of the Task Force on School Finance*, 1972. Bureau of the Budget, Executive Office of the Governor, Springfield, Illinois.
6. *Ibid.*

CHAPTER FIVE

FULL STATE FUNDING

Full State Assumption of the Costs of Public Elementary and Secondary Education: A Rationale for Illinois

Full state assumption of the cost of public elementary and secondary education is sound fiscal policy and good educational policy. Furthermore, full state assumption may be required by impending court decisions.

In the November 20, 1971 issue of the *Saturday Review* in the aftermath of the California Supreme Court's decision in *Serrano v. Priest,* it was stated:

> The court took some pains to argue that territorial uniformity in school finance is constitutionally required. "Where fundamental rights or suspect classifications are at stake," said the court, "a state's general freedom to discriminate on a geographical basis will be significantly curtailed by the equal protection clause." In support of this interpretation, the court first relied upon the school closing cases in which the U.S. Supreme Court invalidated efforts to shut schools in one part of a state while schools in other areas continued to operate. Secondly, the court relied upon the reapportionment cases in which the U.S. Supreme Court held that accidents of geography and arbitrary boundary lines of local government can afford no ground for discrimination among a state's citizens. "If a voter's address may not determine the weight to which his ballot is entitled, surely it should not determine the quality of his child's education."
>
> This analysis is consistent with the more egalitarian proposition that the quality of a child's education may not be a function of local wealth or of how highly his neighbors value education. In other words, it would prohibit variations in the number of dollars spent on any child by virtue of his place of residence. It would apparently permit variations based on educationally relevant characteristics of the child. One point that remains unclear in the opinion is whether the equal protection clause applies to children or to school districts. If it is children who are entitled to equal protection, then the quality of a child's education could not be subject to a vote of his neighbors. (1)

If this interpretation is upheld, then full state assumption in some form is the only logical alternative, for only if the state participates fully in the financing of education can it ensure that wealth and place inequalities are removed. The fiscal neutrality principle advanced in *Serrano* and its handmaiden, the district power equalizing plan, would permit educational quality to vary from school district to school district.

The major impending event is the expected U.S. Supreme Court decision in *San Antonio v. Rodriquez.* This case is on appeal from a U.S. District Court in Texas. That court had held that the public school finance system now operating in Texas violates the equal protection clause of the federal Constitution. If the U.S. Supreme Court upholds the lower court's decision, all states will need to reform. Should it not uphold the decision, then it is fully expected that litigation will continue in state courts on *state constitutional* grounds. An example is the approach taken by the New Jersey Superior Court in *Robinson v. Cahill.* That court found that that state's school financing system violates both federal and state equal protection rights and the provision of the New Jersey Constitution which asserts that "the legislature shall provide for the maintenance and support of a thorough and efficient system of free public schools." The opinion stated:

> Providing free education for all is a State function. It must be accorded to all on equal terms. Public education cannot be financed by a method that makes a pupil's education depend upon the wealth of his family and neighbors as distinguished from the wealth of all taxpayers of the same class throughout the State.
>
> The New Jersey system of financing public education denies equal protection rights guaranteed by the New Jersey and Federal Constitutions. Education is one of the most important functions of state governments, and educational opportunities, where the state has undertaken to provide them, is a right that must be made available to all on equal terms. Education is a fundamental interest, vital to the future of every citizen. Lines drawn on the basis of wealth or property, like those of race, are traditionally disfavored. Thus, where fundamental rights are asserted under the equal protection clause, classifications will be closely scrutinized. (2)

Robinson, thus apparently requires the following:

(1) the quality of a child's education may not be a function of the wealth of his parents, neighbors, or school district.

(2) The quality of a child's education may not be a function of the willingness or unwillingness of the local electorate to vote funds for education.

(3) There must be an equitable distribution of the educational tax burden.

(4) The opportunity for an education is a right which must be made available to all on equal terms.

(5) The accidents of geography and the arbitrary boundary lines of local school districts can afford no ground for discrimination among the school children of a state.

Reform may thus be induced by U.S. Supreme Court action or by state court action. Of course, it is possible that the judicial inducement of school finance reform may reach an impasse. In this assumed unlikely event the obligation would again be on state legislatures to wrestle with the fiscal, educational and moral questions which have been raised in the lawsuits. In any instance, many people who have thought deeply about school finance believe that the case for full state assumption rests on its own.

II

The recent renaissance of the concept of full state funding is generally attributed to James B. Conant who, in a speech before the Education Commission of the States in 1968, said:

> I would point out . . . that in the years in which I have tried to convince people of the importance and the correctness of our system here in the United States, I always assumed that local control of schools was a necessary consequence of local financing of the schools and vice versa. I think the New Brunswick example is a demonstration that this equation may well be wrong. It may well be that you can have local control of all the vital aspects of the public schools and still have the financing at the state level through state taxes and not through the local property tax. (3)

Building on this notion, the late James E. Allen, in a speech before the New England School Development Council, said:

> Current conditions and future probabilities have made it impossible to continue to ignore the long apparent need for a drastically revised pattern of school finance. The general pattern now existing is more often restrictive than supportive. As the possibility of revisionary action comes nearer, the proposal for state assumption of all, or substantially all, of the local costs of elementary and secondary education is gaining support. ("Education: The First Duty of Government," The Alfred Dexter Simpson Lecture, Harvard University, 1971.)

Conant has since developed a plan for full state funding. In the October, 1972 issue of *The American School Board Journal*, he made the following proposal:

> (1) A state would repeal its current legislation that gives taxing power to a local school district; (2) new school districts would be created, each with an elected board with power to appoint the district superintendent and the principals of schools in the districts; (3) each district school board would propose an annual budget expressed in terms of personnel needed (not in terms of money); the budget would be reviewed by the chief state school officer and his staff; (4) a statewide salary scale would be created by the legislature after consultation with representatives of the teachers; (5) a dollar budget finally would be presented to the legislature by the governor on the advice of the chief state school officer; (6) the money to meet the budgeted expenses would be raised by statewide property and income tax; (7) federal money would supplement funds raised by state taxes — with no strings attached to such federal funds. (4)

The specific plan which Conant proposes would, in our view, be difficult to implement. Nonetheless, it does derive from a principle which Conant asserts and to which we subscribe: "The only vital point is that *collecting* the money would be completely divorced from *distributing* it."

The President's Commission on School Finance similarly concluded that states should assume nearly the full cost of elementary and secondary education:

> The Commission recommends that State governments assume responsibility for financing substantially all of the non-Federal outlays for public elementary and secondary education, with local supplements permitted up to a level not to exceed 10 percent of the State allocation.
>
> The Commission further recommends that State budgetary and allocation criteria include differentials based on educational need, such as the increased costs of educating the handicapped and disadvantaged, and on variations in educational costs within various parts of a State.

To aid the States in moving toward this objective, the Commission also recommends a general purpose Federal incentive grant that would reimburse States for part of the costs of raising the State's share of total State and local educational outlays above the previous year's percentage. This would be contingent on the submission by a State of a plan for achievement of full State funding over a reasonable period of time. (5)

The President's Commission thus views full state funding as so worthy a goal that it has proposed a federal incentive.

The New York State Commission on the Quality Cost and Financing of Elementary and Secondary Education (the Fleischmann Commission) issued a report which in our view, will stand as a landmark in public school finance. That Commission rejected district power equalizing as an inadequate alternative in favor of full state funding. The reasoning of the Commission is so persuasive that we reproduce it at some length:

We prefer full State funding to district power equalizing for several reasons. First, assume that wealthy districts are inhabited by wealthy residents and poor districts are populated by the poor. All district power equalizing does then is to assure equity in tax rates vis-a-vis school expenditures. Poor people would have difficulty in meeting the competition of rich people in rich districts, once the latter saw how the finance plan was shaping up and raised their school tax rates to preserve their favored position.

Second, assume (as we do) that there is no absolute standard of education which can be described as "adequate" — that all educational disparities are relative. Then, if one is going to embark on a major revision of educational finance arrangements, why should one not remove "place" inequalities as well as wealth inequalities? The quality of a child's education should, in our view, be no more a function of how highly his neighbors value education than how wealthy they are.

Moreover, we believe that the equal protection clause of the Fourteenth Amendment applies to individual children rather than school districts. If this is so, then the quality of a child's education cannot depend any more on the vote of his neighbors within the confines of a local school district than it can on their aggregate relative wealth vis-a-vis other school districts within the State. The California Supreme Court in *Serrano v. Priest* was not explicit on this point, but it did take some pains to argue that territorial uniformity in school finance is constitutionally required. "Where fundamental rights or suspect classifications are at stake," the Court said, "a State's general freedom to discriminate on a geographical basis will be significantly curtailed by the equal protection clause."

To make the point clear, consider two districts, A and B, and let them be of equal wealth. Suppose the residents of district A choose a school program half as costly as the residents of district B. Is it good policy for the State to require the children of A to suffer the lifetime handicap of inferior education, which is to say, should the State exclude these children from the benefits of district B education on the basis of a district boundary line that is itself a historical accident? As we understand the ideals of a democracy, public institutions — and especially the schools — should see to it that personal attributes such as aptitude, talent, and energy, play a progressively larger role in an individual's success and development, while parental wealth, on the one hand, and apathy on the other, play a progressively smaller role. We see no way for this ideal to be achieved in the absence of direct State intervention in the allocation of educational resources.

One of the functions of an educational system is to act as a sorting device. Classification of people on grounds of ability and aptitude occurs all the time, and schools often act as a major transmitter of the process. But if primary schooling of some children is of vastly greater quality than that of other children, the sorting process is ineffective and dangerous. Local tastes for basic educational services should not distort the function of the sorting mechanism and possibly undermine student's potential and achievements. (6)

The Commission's position is thus compatible with our interpretation of the law as reported in Section I above. Moreover, the Commission identified what for us has been a key issue. Since there is no absolute level of expenditures which can be defined as adequate, then all expenditure differences are relative. This leads us to the conclusion that place inequalities should be removed. Differences in educational expenditures can be permitted only if they are based on educational grounds.

Lastly, a work which will be used by those who oppose school finance reform should be cited — the widely heralded study *Inequality* by Christopher Jencks and his associates. Jencks asserts, we think incorrectly, that "unequal expenditures do not . . . account for the fact that some children learn to read more competently than others, nor for the fact that some adults are more economically successful than others." Nonetheless, he makes a moral argument for reducing variations in educational spending:

The case for equalizing expenditure must therefore rest on a simpler logic, which asserts that public money ought to be equitably distributed even if the distribution of such money has no long-term

effect. There is no evidence that building a school playground, for example, will affect the students' chances of learning to read, getting into college, or making $50,000 a year when they are 50. Building a playground may, however, have a considerable effect on the students' chances of having a good time during recess when they are 8. The same thing is probably also true of small classes, competent teachers, and a dozen other things that distinguish adequately from inadequately financed schools.

Adequate school funding cannot, then, be justified on the grounds that it makes life better in the hereafter. But it can be justified on the grounds that it makes life better right now.

And later,

Instead of evaluating schools in terms of long-term effects on their alumni, which appear to be relatively uniform, we think it wiser to evaluate school in terms of their immediate effects on teachers and students, which appear much more variable. Some schools are dull, depressing, even terrifying places, while others are lively, comfortable, and reassuring. If we think of school life as an end in itself rather than a means to some other end, such differences are enormously important. Eliminating these differences would not do much to make adults more equal, but it would do a great deal to make the quality of children's (and teachers') lives more equal. Since children are in school for a fifth of their lives, this would be a significant accomplishment. (7)

In sum, the case for full state assumption can be made on legal, educational and moral grounds.

Full State Funding: A Proposal

Constitutionally, education is a function of the state, not the federal government. (8) The State of Illinois has expressly defined the state's responsibility:

A fundamental goal of the People of the State is the educational development of all persons to the limits of their capacities.

The State shall provide for an efficient system of high quality public educational institutions and services. Education in public schools through the secondary level shall be free. There may be such other free education as the General Assembly provides by Law.

The State has the primary responsibility for financing the system of public education. (9)

It therefore follows that Illinois has the responsibility for developing a system of financing education which will fulfill primary state goals, including "the educational development of all persons to the limits of their capacities." Implicitly or explicitly, this can be said to be the purpose of present and future financial systems. The complexity of the financial system can be presumed to result from the complexity and ambiguity of these primary goals.

The Present System

At present, revenues for the support of education in Illinois are derived from at least three systems of taxation, categorized according to the locus of their administration. The largest amount of money for education in Illinois is obtained through taxes which are administered by local authorities. The second major source of revenues is through taxes administered by the State. The third is through taxes administered by the Federal government.

Table 1

Sources of Revenue for Education in Illinois

1971

Federal	$ 137.2
State	966.6
"Local"	1,677.8
TOTAL	$2,781.6

In the above paragraph, school revenues have been categorized according to the locus of collection and administration rather than according to what segment of the population is entitled to the proceeds. This is an extremely important distinction, since taxes collected for schools by either local or state agencies are, legally, state taxes.

School taxes are state taxes even though they may have been levied by the local district or municipal authorities:

> When a municipal body, or a county, or a school district levies taxes for school purposes, the tax so levied is a State and not a municipal, county or district tax, although it may be levied and collected by municipal or county or district officers. The fact that the tax is levied and collected for the State by the agencies of the State appointed for that purpose does not deprive it of its character as a state tax. (10)

Furthermore, school board members are officers of the state and not local officials. The Illinois Constitution specifically excludes school boards from the category of "local governments." In legal as opposed to administrative terms, the revenues for education in Illinois should therefore be classified as follows:

Federal	$ 137.2
State (including locally collected funds)	2,644.4

The notion that locally collected revenues "belong" to the locality is a *fiction* which is, however, sanctified by the majority of the population, including most school finance experts. Furthermore, like most similar fictions, is serves a very important purpose.

The "Fiction" of Local Support

The fiction that schools are supported, in large part, by local revenues has arisen in response to a number of pressures. This section will describe two favorable results of this "fiction" as well as one unfavorable result which has led the courts to declare the present system of financing education to be unconstitutional.

(1) Of particular importance is the fact that an educational system financed in large part by "local funds" permits an approximation to the "benefit theory of taxation." To some degree, local residents are able to select, through processes of collective choice, a level of support for education which they find desirable. Furthermore, prospective home owners may make their choice of residence contingent upon the benefits they will receive (in terms of public services—especially education) and the taxes they will pay.

Educational government is thus kept close to the people, who are able to exert an influence on the quality and nature of the educational program, as well as on the level of taxes they will pay. This responsiveness of the educational system to consumer demand is, of course more evident in communities whose inhabitants are well educated and have relatively high incomes than in districts with ill-defined aspirations and limited resources.

(2) The fiction of local support permits fiscal and educational flexibility. In fact, the system permits inequalities in expenditure levels without seeming to sacrifice the principle of equity in the use of state funds. Consider the following instances:

1. Urban-rural expenditure differences (corresponding in part to differences in costs of living) are permitted. There is no clear relationship between these differences in expenditure level and the quality of services which are provided.
2. Formulae have been developed which permit differences in expenditure between students at the elementary and secondary levels. These formulae correspond to differences in actual practice, and not to any explicit educational theory.
3. Differences in expenditure levels are permitted between communities which choose an academic type of curriculum, and others which choose a curriculum which includes a large component of vocational training.
4. The fiction of local support permits the state, in effect, to purchase services from school districts through categorical grants for the education of exceptional children, for state-defined purposes such as driver education and vocational education, and for special programs designed for urban children. These grants act as safety valves for certain kinds of demands which may not be in high demand at the local level.

In short, a large number of accommodations have grown up, in order that the educational system of the state may be adapted to the changing needs of our society. These accommodations are reflected in state financial support systems which tend to be exceedingly complex. In spite of this complexity, however, (and to some degree, because of it) educational finance remains one of the major areas of public controversy.

Expenditures for education, under the present system, correlate closely with local property value per pupil. (11) Hence, the desire to maintain a flexible system, and to preserve some aspects of a "benefit theory" form of tax support for education has resulted in *a system where state money is available differentially, according to local taxpaying ability*. (12) It is not surprising, therefore, that the courts have ruled the present system of educational finance to be unconstitutional.

Power Equalizing

We have shown that schools are financed on the basis of the "fiction" that money raised locally for the support of education "belongs" to the local community. One result of this fiction is that more state money is available for educating children who, by and large, have many advantages at home, and less state money is available for the education of those who start life at a disadvantage. The courts may or may not rule this situation to be unconstitutional. However the courts may rule, the preservation of this fiction by knowledgeable people violates the fundamental principle of equity.

One possible solution to the problem is based in part on arguments presented by Coons, Clune and Sugarman. (13) The so-called power equalizing formula deserves serious consideration because it would remove the correlation between local wealth and expenditures, and at the same time preserve in part the "benefit theory" of taxation. This procedure would preserve flexibility in local expenditures, and would make it easier for expenditures to be related to educational "needs."

Apart from any possible negative attitude of the courts to this alternative, it has a major flaw. A landmark in the expansion of educational opportunity was the passage of compulsory attendance laws, which determined that the state, not the parent should be the judge as to whether a child should be educated. Applying this same principle, the state should be in a position to guarantee "the educational development of all persons to the limits of their capacities." In other words, a child's opportunities should be determined by the aspiration level of the state as a whole, not the aspirations of persons in a given community. A reasonable implication should be that a child's opportunities should be enhanced where his parents have high expectations for him and where the community as a whole places a high value on education, but should not be limited (and certainly not by state law) where parental and community aspirations are poorly developed and where resources are minimal.

Full State Funding

Full state funding should be distinguished from the broader concept of full state financing since apart from relatively small amounts of federal money, schools are in fact financed by the state. The state has established quasi-governmental agencies called school districts and has provided them with tax-collecting power, in order to permit a flexible system which is responsive to local "needs."

Full state funding, as we define it, would require the state to assume explicit responsibility for the collection of revenues, and for the distribution of these revenues to school districts according to a state-defined system of goals and priorities. Such a system would be able to address itself effectively to problems of equity. On the other hand, it would be more difficult under full funding than under the present system to preserve flexibility and to maintain the appearance of a "benefit theory" system of local taxation.

Two alternatives are presented. The first outlines a procedure for implementing full state funding on a more or less conventional basis. The second, much less conventional, calls for a major revision of our thinking about school finance. In both cases, revenue decisions must be separated from distribution procedures. In fact, full funding speaks to the latter, and is neutral with respect to sources of revenue.

Alternative 1

This alternative proposes setting a level of support for all schools in the state and, over a period of several years, making revenues available up to this level. It also implies setting a ceiling on expenditure levels above the basic level so that, in time, expenditures will be essentially equalized.

A procedure must be devised to permit adapting expenditure levels to the numbers of children in a district who require an educational program more expensive than that provided to the average child in the district. In New York this problem is solved, in part, through the intermediate districts which provide a large part of the vocational and special education for the state.

In Illinois this problem might possibly be solved by "weighting" the ADA according to the appropriate cost factors, or throught the use of categorical grants. These costs are excluded from the analysis, since there are strong arguments for permitting this aspect of resource allocation to be determined locally.

It is important, in implementing this procedure, to distinguish between actual cost differentials and optimal differentials. For example, while it is realistic, under present cost conditions, to provide more money for the education of a high school child than an elementary school child, this weighting may (in reality) be undesirable. In fact, it might be much more efficient to provide the most intensive (and expensive) education in the primary grades, and to decrease the cost year by year beyond this level. This is an important issue which cannot be disregarded by students of educational policy.

In implementing the proposal, the following requirements must be met:

(1) Through an appropriate mix of revenues, the state must obtain sufficient funds to support education at a defined fiscal level. It is proposed that this revenue mix include a statewide property tax.

(2) The financial definition of the program level is as follows:

a. A minimum level, approximately equal to the 80 percentile of current expenditures, is defined.

b. Expenditure levels now above this amount are to be frozen.

c. Expenditure levels now below this amount are to be raised over a three-year period in equal annual amounts until this level is reached.

Assumptions

The specific proposal is based on a set of assumptions. The precise figures used will change as the assumptions are refined.

(1) It is assumed that the enrollment at year 0 (the time of initial implementation) is 2.4 million students. It is also assumed that the enrollment remains unchanged during the period of implementation.

(2) It is assumed that total expenditures at year 0 are $2,820 million.

(3) Hence at year 0 the mean expenditure per unweighted student is $1170.

(4) It is assumed that the 80th percentile of expenditure per unweighted student is $1400.

(5) It is assumed that the mean expenditure for the remaining 20% of students is $1600.

(6) Finally it is assumed that the total assessed valuation in the state in year 0 is $50 billion, and this amount increases by 5% each year.

The cost of implementing the program in year 3 (that is, raising expenditures now below $1400 to that amount and freezing expenditures above this amount) is $3.456 billion. The annual additional revenues required will be $212 million each year for three years.

The necessary tax ratio is 3.32 per $100 of assessed valuation for total (elementary plus secondary) enrollment. While this will represent an increase for many taxpayers, it should be remembered that this rate is to be frozen and that additional needed revenues are to be obtained from more elastic sources.

Table 2

Distribution of Cost in Implementing Proposed Plan

Year	State General Revenues (including Federal Revenue Sharing)	Revenue Required from State Property Tax	State Property Tax Rate	Total
0	$1,160 million	1,660	$3.32	2,820
1	1,289	1,743	3.32	3,032
2	1,414	1,830	3.32	3,246
3	1,535	1,921	3.32	3,456

Note:

1. To be effective, this finance system should be accompanied by a reorganization of school districts. In particular, the state should be organized into unit districts. When this is done, the problem of weighting by educational level, would largely disappear, since school districts could then take the responsibility for devising appropriate systems for allocating resources among primary, intermediate and secondary students.

2. The proposal will no doubt be criticized on the grounds that high expenditure districts are penalized through a freezing of their expenditure levels. The question becomes one of priorities. In a period in which some districts can barely provide sufficient funds to offer a minimal educational program, should state funds (including the proceeds from the "local" property tax) be used to raise already high expenditures in the wealthy suburbs?

3. The proposal has the clear advantage of permitting a state-wide freeze on property tax levels.

4. A serious criticism is whether it would be an efficient use of resources to raise expenditures to the $1,400 level throughout the state. In some cases where, through wise decisions, the additional funds are used to permit excellent programs to be provided in all parts of the state, the question may be answered

in the affirmative. However, there may be cases where additional resources would be used to increase the costs of a clearly inferior program. This reservation will take us to Alternative 2.

5. In general the effect will be to provide a gradual shift from less elastic to more elastic sources of revenue for education.

6. Would this proposal lead to the disappearance of local control over schools? To the degree that local control exists and that it results in part at least from the ability of each community to make revenue and expenditure districts, there may be some shift in decision-making to the state level. In the less wealthy districts, however, an increase in revenue would probably permit more rather than fewer degrees of freedom in making educational decisions.

In a recent article, Nyquist listed areas in which communities are likely to desire local control. Given an adequate amount of resources, only the last one of these areas is contingent upon the ability of the local school board to raise taxes. (14)

(a) The hiring, removal and assignment of personnel.

(b) The setting of goals in terms of local needs, but with recognition of the relationship of those goals to the broader needs and interests of the state and nation.

(c) The determination of the content and sequencing of curriculum within a framework of state minimum requirements.

(d) The selection of instructional materials.

(e) The assignment of individual students to curricula and classrooms, subject again to some state minimum requirements.

(f) The establishment of attendance zones and enrollment policies, again within the requirements for racial integration established by the courts, the federal government and some states.

(g) The establishment of standards for promotion and graduation.

(h) Control of physical plant.

(i) The right to engage in collective negotiations, and the determination of employee compensation, including collateral perquisites.

(j) The establishment of examining and evaluation procedures and instruments.

(k) The direction of transportation services and purchasing policies.

(l) Long-range planning and the encouragement of increased citizen participation.

(m) The division of expenditures, as between personnel, materials and equipment, management and other purposes, subject to the meeting of performance goals.

(n) Final decision on budget with no requirement for prior approval from the state. The state's responsibility would be carried out through the usual post-audit procedures and new accountability requirements. A local vote on the budget is an additional possibility as a way to maintain community involvement and interest (although that subject is not without controversy).

(Note: It is not self-evident that "a" through "m" are contingent upon "n" as long as adequate financing is provided.)

Many persons, including the author of this section, will be concerned with the obvious rigidity of a system which is based on fixed expenditures per pupil, without taking into account the many regional, cultural, and socio-economic factors which, for good or bad, are imbedded in the present system. For this reason, an alternative approach is proposed. This approach, like the one just mentioned, would be difficult to implement without a considerable measure of school district reorganization.

Alternative 2

1. It is proposed that legislation be introduced to redistrict the State of Illinois into not more than 100 unit school districts.

2. In each school district the administration and the board should develop a master plan of the educational needs of its students.

3. The master plan will also provide a statement of the organization and staffing needed, over a five year period, for the implementation of its plans.

4. Through a uniform program budgeting system, the plan will be translated into financial requirements. The state will provide all the funds required to implement the plan.

5. Fiscal constraints, corresponding roughly to those described in Alternative 1, shall apply. The revenue system will be similar to that described in Alternative 1. In moving from present expenditure levels

to a higher level, however, a budgeting explanation would be required. Thus, this alternative would result in differences in expenditures according to the needs of each district. Regional and cost differences could readily be included in this alternative. However, the present procedure of attempting to develop formulae to correspond to complex economic differences throughout the state would be avoided. At the same time, overall state plans could be used to keep expenditures within a given total figure.

6. Given an efficient procedure for implementing this plan, the result could be a planned improvement of educational offerings throughout the state. Simultaneously, the system would preserve excellence where it now exists.

FOOTNOTES

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CHAPTER SIX

PLANS FOR CAPITAL FINANCING

Introduction

After salaries, capital outlay represents the next largest single category of expenditures for elementary and secondary education. In 1970-71 total expenditures for site acquisition, new buildings and improvements totaled $196.2 million in addition to $40.9 million in expenditures for new and replacement equipment. Approximately two-thirds of the fixed assets acquired in 1970-71 were paid for from borrowed moneys. Long-term debt in the form of local bond issues has resulted in bond interest and service charges that in recent years have amounted to slightly over $50 million annually. Thus, the actual costs of construction (or reconstruction) and the costs of debt service are the two primary components to be considered in capital financing.

The equity, efficiency and neutrality criteria used in judging general state aid distribution systems also apply to capital financing. The finance program alternatives described in succeeding sections were evaluated in terms of the following criteria:

Equity

1. The system should reduce the variance in expenditure per pupil for capital facilities. This can be accomplished by leveling up the expenditures of the poorer districts by providing proportionately more money to the poorer school districts. District wealth may be defined in terms of assessed valuation per pupil and in per capita income in the district (or both). These two measures of wealth relate to bonding capacity and debt servicing ability respectively.
2. The system should reduce the variance in tax effort.
3. The system should reduce the disparity between expenditure levels obtained for a given tax effort. Poorer districts frequently exert considerable effort resulting in high tax rates to construct barely adequate facilities or, despite their efforts, find themselves unable to reduce the substantial backlog of renovation needs.
4. The system should provide for partial control over local leeway. If quality educational facilities are to be provided for all, extreme variance in expenditure per pupil for capital facilities must be reduced.
5. The system should provide for a greater percentage of state funds and a lower percentage of local funds expended for capital purposes. Since the State of Illinois does very little capital facilities financing, the great variation in local district wealth has produced considerable inequities.

Efficiency

1. The system should allocate funds to districts with the greatest educational needs and the least capacity to provide financing. Financing priorities should be based on (a) the need for additional classroom space, and (b) depletion of local taxing and bonding capacity. Serious capital facilities problems occur where the population growth has exceeded the ability to provide classroom space.
2. The system should not perpetuate districts which are too small to be economically efficient, nor should it encourage growth beyond economies of scale.
3. The system should encourage the optimum allocation of resources to provide maximum facilities to house locally determined educational programs.
4. The system should be easily understood and should provide incentives for continuous planning and maintenance of an adequate school plant.
5. The total costs of the system must be fiscally feasible and reasonable on a statewide basis.

In general the larger the State's share in capital facility financing the more equalization of expenditures and effort there will be. The criteria that payment for a building should be spread over its early useful life and that future users and/or beneficiaries should share in payment for the facility have been subject to continuing debate. A basic assumption in the development of alternatives was the concept that there should be local responsibility for educational decision-making with state edu-

cational agency overview and review. The intent is to devise a process and structure for systematic facility and fiscal planning that will focus on administrative efficiency and flexibility and provide maximum equity for school districts and taxpayers.

Sources of Funds

The deliberations of this committee were focused more on the development of distribution system than on determining revenues sources. Current appropriations and borrowing are the primary means for obtaining funds.

There is general agreement that the common school fund should have first demand on current appropriations. Pay-as-you-go appropriations for capital assistance financing undoubtedly would require an increase in income and sales taxes or a statewide property tax. If conversion were made to a statewide property tax to generate current revenues for pay-as-you-go financing there would be fewer tax dollars needed ultimately because interest costs would be eliminated. The State's fiscal picture for 1973-74 shows potential improvement and increased carryover balances.

However, since fiscal resources are scarce they must be parcelled out on a priority basis. Heavy capital expenditures from current appropriations on a pay-as-you-go basis might preclude the opportunity to use those moneys for other worthy purposes. Furthermore, with continued inflation, interest and debt retirement payments are made with "cheaper" dollars as they come due further into the future. The future costs of current borrowing are thus reduced.

If the State's revenue flow situation does not permit current appropriations for state capital assistance, then longer term borrowing would be required.

The costs of a statewide capital assistance program could be spread over a number of years. Under a long-term bonded indebtedness plan the reduced annual costs (versus pay-as-you-go costs) would likely permit a larger overall investment in improved facilities initially and with less hindrance to other current spending programs. Amortization of facility costs over 20 or 30 years is justified on the grounds that future users share in paying for the facilities while they share in the benefits.

Here again the bond market can constrain dramatic increases in revenue. The State is already committed to several programs requiring the issuance of substantial amounts of general obligation bonds in the next four years. It appears possible to finance school construction through the use of the state general obligation bonds in amounts up to $200 million annually without requiring the State to go to the market too frequently. The benefits in utilizing the State's general obligation bonds are that the state has a higher credit rating, borrows at a lower rate of interest, and achieves more efficient marketing of larger blocks of bonds. Federal revenue sharing to county and municipal governments should reduce the demands for long term financing by local governmental agencies which in the past have competed with school districts for debt financing.

If local school districts are to retain long term bond financing as a way of doing business, then the legal constraints on bonded indebtedness should be reduced to provide for sound debt management. The term or maturity limit on school district bonds should be amended from 20 years to 30 years to better reflect the life of the buildings and to take into account market conditions. Similarly, interest rate limits should be amended to permit a floating rate of interest. Additionally, a state agency should provide assistance to school districts in marketing school bond issues which would pool local debt issues to obtain a favorable market position. Local districts with small issues, low ratings, and lack of marketing experience either pay too high a price (interest cost) for capital outlay financing or find it denied to them entirely.

Tangential Problems

Basically the alternatives proposed herein are to provide funds for housing educational programs which will meet local needs. At the same time, however, the State has a primary responsibility for setting school facilities standards. School district reorganization problems are acute. If the financing system is not to perpetuate districts of too small size, then at what level should aid to districts be terminated? As of the Fall of 1972 there were 1084 operating school districts in Illinois. Of these operating districts, 249 or 22.9% had enrollments of less than 300 pupils (200 elementary school districts, 44 secondary, and 5 unit school districts). A total of 630 districts (58.1%) had pupil enrollments of less than 1,000. Even if school district reorganization is not mandated, the investment of capital facilities moneys in various districts should be coordinated by a county or regional plan that would tend to preclude overlapping school service areas, inefficient size schools, and illogical school location.

There is a critical shortage of factual information on which to base classroom demand factors. In the past OSPI has not been charged with providing detailed information on the character and quality

of the existing school plant across the State. Objective and appropriate space, site, environmental and material standards for construction and rehabilitation do not exist as yardsticks against which to measure the adequacy of existing schoolhouses. A complete, up-to-date and accurate schoolhouse inventory does not now exist for the State of Illinois; therefore, there is no data base on which to project renovation and replacement needs. The demand for new classrooms is similarly unavailable and can only be estimated on the basis of expected regional and district growth patterns.

It is hoped that an outcome of this study will be that objective methods for determining need based on educational requirements will be developed. One approach is to develop standards for "approved project costs" based on the number of pupils to be housed and the programs to be accommodated. Standardized space and facility requirements for both pupils and programs can be developed. Standards developed by the former School Building Commission would provide a starting point for developing such guides.

A fiscally sound capital assistance finance program would include the development and maintenance of appropriate data bases to monitor such things as projected demands for classrooms, both new and renovated; to develop regional cost-of-construction indices; and to monitor carefully the economic effects of capital financing that reduces tax differentials which might influence decisions for locating residential housing. The program should provide for fiscal accountability including safeguards so that moneys authorized for school construction and debt service cannot be diverted to other purposes. Although the program should be responsive to changing economic and sociological conditions, there is a need for long-range planning for stable and predictable construction and financing of school facilities.

Present Support

The provision and financing of public school buildings and facilities in Illinois is almost exclusively a local school district responsibility. Relatively impoverished districts which are at their legal bonding limit are assisted by the Illinois Capital Development Board. This agency assumed the role of the former School Building Commission.

The principal sources of school building funds are local general obligation bond issues and the local Operations, Building, and Maintenance Fund Additionally, the State grants moneys to the Capital Development Board for building schools and provides funds for the construction of special education facilities.

The existing support program is summarized in this section. More detailed coverage is presented in the paper "Status of Capital Assistance Financing for the Illinois Public Schools" published in Volume III of the Occasional Papers of the Advisory Committee. (1)

Local Provisions

In 1970-71, capital outlay financing undertaken through the Building Fund (now Operations, Building and Maintenance Fund) was $69,939,499 and bond issue proceeds expended from the Site and Construction Fund amounted to $126,297,313. Thus, 35.6 percent of the $196,236,812 in expenditures for site acquisition, new buildings, and improvements was charged to the Building Fund and 64.4 percent was charged to the Site and Construction Fund. Minor expenditures also were made for capital outlay and charged to the Capital Improvement Fund.

Additionally, $40,906,514 in capital equipment and replacement equipment expenditures were charged to the Educational, Building, and Site and Construction Funds. The initial complement of equipment is appropriately included in expenditures charged to the Site and Construction Fund.

Bond Issues

Each school district has complete responsibility for the initiation of bond issues and State approval is not necessary. The issues must be approved at a special election by a majority of the qualified electorate who participate. School bonds may be issued for capital outlay not to exceed six percent of the equalized assessed valuation of an elementary district (K-8) or a high school district (9-12). A Grade K-12 district's debt limit is the composite of the dual limits or 12 percent of equalized local assessed valuation. A district with voter approval may exceed the above debt limitation for building facilities by borrowing funds through the Illinois Capital Development Board.

Only serial bonds may be issued for a maximum period of 20 years with a maximum permissible interest rate of six percent.

Debt Service

In 1970-71, the total debt service amounted to $172,318,488. This was composed of bond principal retirements of $120,779,732 and $51,538,756 bond interest and service charges paid through a levy of the amount needed for the Bond and Interest Fund.

Operations, Building and Maintenance Fund

School districts maintaining Grades K-12 may establish a cumulative building fund within the legal limit of .75 percent tax rate per dollar of equalized assessed valuation. This must be done with the approval of the voters. Accumulation of funds by this method cannot exceed the debt limits stated above. Expenditures for the purchase of a building site and additions to existing structures may be made from the Operations, Building and Maintenance Fund without voter approval.

There has been gradually increasing reliance on this type of pay-as-you-go financing versus long-term indebtedness. Increasingly larger proportions of total expenditures are charged to the Operations, Building, and Maintenance Fund than to the Site and Construction Fund.

State Provisions

Although the Illinois support program has provided only nominal aid for facilities construction in the past, the volume of support is increasing.

State Grants

A minor grant program for special education facilities was established in 1967. Dual districts must levy a .02 percent qualifying tax rate and unit districts .04 percent for a special education building fund and the State allocates $1,000 per professional special education employee to be used for building purposes. During Fiscal Year 1973, $6,500,000 was appropriated for such purposes.

School districts upon approval of their special education facilities project are provided the $1,000 per professional worker per annum to be accumulated together with the special education facility levy until sufficient moneys are on hand to complete the construction project. Such moneys can accrue for no more than eight years.

State Loans

The Capital Development Board has relied on State appropriations to a fund for loans to districts that have reduced their bonding power to less than $5,000. The State loans are interest free and are repaid at the rate of six percent per year, or in 16 and ⅔ years. Local school bonds are authorized to levy a special tax sufficient to provide rental payments. The levy to authorize the project and the rental payments must be approved by a majority of those voting in a referendum. Title to the facility remains in the name of the State of Illinois until the entire project cost is repaid by rent payments. Over 150 school buildings have been completed for Illinois school districts participating in the rental program since its inception in 1958. The 1972-73 appropriation to the Capital Development Board (then the School Building Commission) amounted to $58,115,400. The State is now empowered to appropriate general obligation bond funds to the Capital Development Board.

The Capital Development Board program has provided a stop-gap means of giving relief to distressed districts, but should not be considered an adequate capital assistance plan.

Federal Support

A few districts benefit from facilities aid programs granted to federally impacted areas under Public Law 815. In 1970-1971, a total of $550,120 for capital outlay purposes was expended in Illinois under Public Law 815. Additionally, vocational education capital outlay from the Federal Government disbursed through OSPI amounted to $3,000,000 in 1970-1971.

Extent of Need

The major concern for physical facilities in recent years has been to house an ever increasing number of pupils. Some areas in Illinois, due to population mobility, will continue to face problems of increasing enrollment. Overall, however, the stabilizing of pupil population growth provides the State with a breathing spell in which to reorder its priorities. There is a potentially great demand for replacement of physically and educationally obsolete facilities.

Areas of declining enrollments in the traditional 5-17 age groups may find any surplus classroom space taken over by early childhood programs if the trend for earlier enrollment continues through the decade.

Population age composition and growth patterns, even taking into account reduced birth rates and smaller family size, signal a resurgence in the elementary school population after 1982. At that time additional classroom space (over and above what now exists) will likely be needed as a new wave of school age children begins cresting through the grades. Careful monitoring of pupil population projections and an accurate schoolhouse inventory should make it possible for the State to anticipate classroom supply and demand factors and plan accordingly.

Since an accurate assessment of need based on pupil population projections and a space inventory is not available we must rely on extrapolations of historical trends. One such guide is the pattern of spending between capital outlay expenditures and total public school operating expenditures.

Table 8 in the paper on the "Status of Capital Assistance Financing for the Illinois Public Schools" (2) summarizes a number of years' actual expenditures and projects them over an additional five year period.

These data show that if total operating expenditures continue to rise at the same rate (10.6 percent) as they have since 1950-51, and the ratio between capital outlay and operating expenditures remains constant at the recent five-year average of 13.3 percent than total capital outlay in 1973-74 is estimated to exceed $397 million and will rise to $486 million by 1975-76.

Many school finance authorities believe that the $240 million or so, presently spent statewide for essential new and additional classrooms, should be doubled until the backlog of replacement and renovation is overcome. Until an accurate assessment based on a district-by-district survey is available, the reasonable prediction is that facilities outlays will be in the neighborhood of $400-450 million annually by 1975 if our expenditures patterns are not changed.

The existing volume of school construction in Illinois may not be a good indicator of the need for new facilities. More likely, the amount of new capital outlay is a measure of taxpaying capacity, willingness and the cost and availability of long-term credit. The needs and wants are also reflected in the success/failure ratios of bond referenda attempted. According to a report prepared by the Illinois Bureau of the Budget, "Thirty-four percent of [Illinois] school bond referenda were defeated in the 1970-71 school year." (3)

An indirect measure of need for replacement and renovation of school facilities can be gained by inspecting the available data on the age of existing school buildings.

An examination of a recent summary on Illinois school buildings shows that 41% of the buildings in this state were constructed prior to 1940 and 39% of them since that date. However, construction dates were not shown for 20 percent of the buildings, so exact numbers and percentages are not yet available. The following is the tabulation made from the existing data.

Table 1

Comparative Data on Age of Schools

	Number of Schools	Percentage of the Total
Constructed before 1940	1,974	41.4
Constructed since 1940	1,861	39.0
Construction dates not known	933	19.6
	4,768	100.0

A complete summary, by counties, is shown in Table 2. An examination of that table, though not yet complete, illustrates the effort, ability, and need of each of the districts within the state.

Table 2

Status Report on Illinois School Buildings

(As of April 1, 1972)

County	Number of Buildings Built Before 1940	Number of Buildings Built Since 1940	Number of Buildings with No Construction Dates Shown	Total
Adams	20	10	2	32
Alexander	2	5	2	9
Bond	4	3	2	9
Boone	6	5	1	12
Brown	4	1	0	5
Bureau	23	10	2	35
Calhoun	4	3	1	8
Carroll	9	4	0	13
Cass	8	1	1	10
Champaign	35	32	8	75
Christian	16	8	2	26
Clark	9	5	2	16
Clay	7	8	1	16
Clinton	12	10	3	25
Coles	10	11	7	28
Cook	464	430	425	1,319
Crawford	8	5	1	14
Cumberland	1	3	1	5
DeKalb	23	22	2	47
DeWitt	9	4	4	17
Douglas	9	3	2	14
DuPage	55	133	38	226
Edgar	7	13	2	22
Edwards	4	1	0	5
Effingham	12	10	2	24
Fayette	5	11	1	17
Ford	10	3	1	14
Franklin	16	14	3	33
Fulton	25	11	14	50
Gallatin	4	2	0	6
Greene	10	2	0	12
Grundy	9	16	2	27
Hamilton	4	5	0	9
Hancock	19	9	3	31
Hardin	2	5	0	7
Henderson	5	3	1	9
Henry	14	20	5	39
Iroquois	16	13	5	34
Jackson	16	20	2	38
Jasper	5	4	2	11
Jefferson	12	12	3	27
Jersey	4	4	1	9
Jo Daviess	5	7	1	13
Johnson	4	4	1	9
Kane	41	61	21	123
Kankakee	22	19	9	50
Kendall	1	11	5	17
Knox	14	7	19	40

County	Number of Buildings Built Before 1940	Number of Buildings Built Since 1940	Number of Buildings with No Construction Dates Shown	Total
Lake	53	101	20	174
LaSalle	41	28	3	72
Lawrence	11	6	4	21
Lee	13	11	4	28
Livingston	22	16	6	44
Logan	15	6	5	26
Macon	37	19	13	69
Macoupin	25	6	3	34
Madison	55	45	32	132
Marion	16	11	7	34
Marshall	7	4	1	12
Mason	12	7	1	20
Massac	6	9	2	17
McDonough	5	5	12	22
McHenry	14	37	7	58
McLean	36	20	15	71
Menard	6	4	1	11
Mercer	12	9	2	23
Monroe	2	9	0	11
Montgomery	18	10	3	31
Morgan	15	5	4	24
Moultrie	6	1	2	9
Ogle	15	15	4	34
Peoria	45	40	13	98
Perry	6	9	2	17
Piatt	14	6	1	21
Pike	14	8	1	23
Pope	0	2	1	3
Pulaski	6	3	3	12
Putnam	8	0	1	9
Randolph	7	5	4	16
Richland	7	4	2	13
Rock Island	32	35	8	75
St. Clair	59	56	14	129
Saline	18	8	2	28
Sangamon	17	13	47	77
Schuyler	4	3	1	8
Scott	4	0	1	5
Shelby	10	8	3	21
Stark	4	6	1	11
Stephenson	11	12	5	28
Tazewell	30	31	5	66
Union	9	7	0	16
Vermilion	43	23	5	71
Wabash	2	4	1	7
Warren	7	4	8	19
Washington	6	5	1	12
Wayne	3	4	11	18
White	5	11	3	19
Whiteside	16	32	3	51
Will	34	59	17	110
Williamson	19	12	2	33

County	Number of Buildings Built Before 1940	Number of Buildings Built Since 1940	Number of Buildings with No Construction Dates Shown	Total
Winnebago	50	57	4	111
Woodford	18	7	2	27
Totals	1,974	1,861	933	4,768
	41.4% of the total	39.0% of the total	19.6% of the total	

Note: Chicago has 120 schools that were built before 1900, and 378 of its 593 buildings were built before 1940. There are 131 downstate schools that were built before 1900.

Source: OSPI (Life Safety Reports)

The data shown in Tables 1 and 2 were taken from OSPI Work Progress Reports on Life Safety Programs, dated April 1, 1972. Those reports, however, list all structures at an attendance center as a single building when, in reality there are often several buildings comprising a school. Data based on the latter concept are shown in Table 3. It would appear, from the examination of Tables 1-3, that 17 percent of the schools in the State are housed in more than one building.

Table 3

Dates of Construction of Illinois School Buildings
(Initial Building Only — No Additions)
1971-72

Dates	Number of Buildings	Percent of Total
Before 1870	10	.18
1870-1879	17	.30
1880-1889	63	1.13
1890-1899	182	3.26
1900-1909	277	4.95
1910-1919	438	7.84
1920-1929	659	11.79
1930-1939	895	16.02
1940-1949	242	4.33
1950-1959	1,142	20.44
1960-1969	633	11.33
1970 and after	96	1.72
Sub-total	4,654	83.29
No. of buildings for which dates are not shown	934	16.71
Total	5,588	100.00

Source: OSPI (Universe File)

Unfortunately information on the physical and educational condition or quality of these 5,588 school buildings are data that have not been systematically gathered. The dates represent the date of construction of the initial building. Some buildings may have three or four additions constructed over several decades.

We can speculate that the majority of the 549 buildings built prior to 1910 in Table 3 are candidates for replacement or extensive renovation. The group of 1,097 buildings built between 1910 and 1929 represents 20% of the total buildings in use. Many of these 1,097 buildings in the middle age bracket (44 to 63 years of age) may be structurally sound, but frequently their service systems (lighting, heating and ventilating) are inadequate. The educational effectiveness of the 40 year old and older buildings which have not been renovated is questionable.

Much of the rise in expenditures for capital outlay is due to rising prices. The composite construction cost index rose 48 percent between 1960 and 1970 (U.S. Department of Commerce Index). In other words, the $200 million expended in 1970 for sites, buildings, and improvements represents only $135 million worth of facilities based on 1957-1959 average dollars.

Educational program trends will have substantial impact on school facility design over the next decade. New programs in early childhood education and more extensive laboratory experiences are likely to generate a demand for a particular type and number of classrooms. Other trends that have implications for facility planners and which may reduce capital outlays are year-round school programs, multiple usage and joint occupancy of facilities, and the rapid development of systems buildings.

Alternative Programs

This section will outline capital assistance distribution systems that fall into categories approximately parallel to those given in earlier chapters of this report: foundation level support, equal support for equal effort, full statewide equalization. Each of these plans had advantages and disadvantages, many of which apply to the alternatives given below. Each capital assistance plan is evaluated in terms of the criteria specified at the beginning of this chapter.

The emphasis of these alternatives is on gaining a greater degree of equity, but only toward the end that quality educational facilities are provided for all Illinois school districts. The incidence of special pupil needs should be matched by relatively diverse programs. School districts have differing facilities needs to house such dissimilar programs. Site and construction costs also differ in various part of the state. Equal dollar allocations, therefore, in view of these variables may result in new inequities.

The first two proposals, *Variable Grant Based on Recognized Project Cost* and *Variable Grant Based on Recognized Debt Service Requirements*, should be considered companion recommendations to achieve a reasonable level of support. The second alternative, *Equal Support for Equal Effort* stands alone, as does the final alternative, *Full Statewide Equalization*.

The operating details included with these alternatives are not necessarily linked to a specific plan. A combination of appropriate guides may be more logical in some respects than to consider each set mutually exclusive. Detailed administrative guidelines must be determined and made public by the agencies charged with administering the finance programs.

Variable Grant Based on Recognized Project Cost

This financing proposal is an adaptation of the Strayer-Haig model and provides State grants varying inversely with local ability to pay. The State would provide financial assistance to school districts for new construction, renovation, and reconstruction.

Needs Measures

Grants would be allocated on a priority basis to serve first those districts which have the greatest need. This would be determined by: a) the ratio of inadequately housed pupils to the total district enrollment; b) the projected ratio of inadequately housed (or unhoused) pupils: c) the district's insufficient bonding capacity to provide funds for facilities construction; and d) the date of passage of the local bond referendum where applicable.

A Recognized Project Cost of each specific construction project would be computed by a uniformly applicable formula utilizing the number of pupils to be housed. The Recognized Project Cost would not exceed the total cost of the project including the costs of the site, site improvements, construction, equipment, and related items.

Sources of Funds

The *local share* could be from current revenues, fund accumulations, and/or bond proceeds.

The *State grant share* could be from current appropriations or from funds derived from the issuance of general obligation bonds.

Grant Amounts

The amount of the grant would be based on an amount not to exceed the Recognized Project Cost less a uniform local tax effort. This tax effort should be determined so that an average wealth district could obtain a grant equal to 50% of the Recognized Project Cost from the State. The State grant could vary from 80% for unit districts with an equalized assessed valuation per pupil less than or equal to $10,000 to 20% for districts with an equalized assessed valuation per pupil equal to $40,000. Similar effort and assessed valuation equalization points would be established for dual districts.

Operating Guides

1. Funds made available through this program would be used only for construction projects specifically approved by OSPI and the Capital Development Board based on jointly and cooperatively promulgated standards and guidelines.

2. The local school district would prepare (a) educational specifications based on its educational program, (b) a district master plan specifying facilities needs, and (c) a fiscal plan.

3. The OSPI would use the above documents and objective criteria to determine the project priority, to assess needs, and to coordinate facility planning on a regional basis. Approval of projects would be contingent upon the applicant district being of sufficient size (500 pupils and over) and adequately organized to carry out efficiently an adequate educational program. School districts with fewer than 500 pupils would not participate except as a project could demonstrably promote consolidation and unification as an integral part of a regional plan. Higher priority would be assigned to planned facilities projects that resulted from logical consolidation and unification of school districts.

4. Based on OSPI review and approval the Capital Development Board would determine the Recognized Project Cost on the basis of a predetermined formula using physical design, construction effectiveness, and cost standards adjusted for area cost differentials.

5. The local district's required fiscal plan would outline how the local share of the construction project would be obtained, i.e., whether from the Operations, Building and Maintenance Fund or from the issuance of bonds. The local share would finance any additional costs over and above the Recognized Project Cost.

6. Where the local share of a project requires the school district to issue bonds the project must be presented to the voters for approval by referendum.

7. The Capital Development Board would assume responsibility for final approval of school construction projects and construction contracts and for disbursement of grants to districts according to fiscal plans involving State financial assistance, and supervision of construction.

8. The local school district would be responsible for executing the construction contract under Capital Development Board supervision, and for making progress payments.

9. The local school district would be responsible for receiving the facility and making final payment.

Advantages

1. The variable grant alternative would provide some equalization of local tax burdens with funds allocated to those districts with recognized facility needs.

2. The established objective guidelines would provide a more efficient allocation of school resources to encourage school district reorganization as quickly as possible. Similarly, the guides would foster early land acquisition, the use of building systems, flexible space, and modular components.

3. Only recognized features of a specific construction project would be included in the computation of the Recognized Project Cost.

4. The variable level of state participation in the Recognized Project Cost would foster equalization of the tax burden in local school districts.

5. Grants would provide immediate support for the recognized portion of an approved project.

6. Local leeway possibilities would not necessarily be exhausted as a condition for participation in this program.

7. Multiple approaches could be used in computing the Recognized Project Cost.

8. Multiple indices of ability could be used in computing the amount of the grant and the residual local share.

9. By modifying the items used in computation of the Recognized Project Cost, OSPI would have the opportunity to encourage construction to house specific educational programs.

Disadvantages

1. Inadequate budgetary appropriations might result in an ineffective level of State participation.
2. Participation would be limited to those school districts with current construction projects.
3. The fiscal leeway of local school districts with limited fiscal resources might be virtually exhausted as a condition for participation if State appropriations were inadequate.

(Note: Districts which had made prior construction effort would receive assistance under the companion recommendation which follows:)

Cost of Alternative

The State's share would represent 50% of Recognized Project Costs for an average wealth district. Assuming that greater facility needs are skewed somewhat toward the poorer districts, it could be expected that first year costs of this proposal shifted to the State would be $144 million (60% of the projected 1973 expenditure of $240 million). (See summary in Table 4)

Variable Grant Based on Recognized Debt Service Requirements

This proposal is for a variable State grant to provide financial assistance to school districts for debt service, both principal and interest, for outstanding debt incurred prior to the date of enactment of this proposed legislation. The grant amount would vary inversely with local ability to pay.

Needs Measures

Grants would be provided for debt service to all districts having outstanding bonded indebtedness. The State would recognize a portion of the total debt service needs, say one-half. Average wealth districts would receive a State grant equal to 50% of their recognized (one-half) debt service requirements.

Sources of Funds

The *local share* would be from Bond and Interest Fund moneys.

The *State share* could be appropriations from either current or general obligation bond funds.

Grant Amounts

The amount of the grant for debt service would be based on a recognized (fixed) proportion of a district's annual debt service expenditures for indebtedness (not otherwise subject to State financial assistance) less a uniform local tax effort. This tax effort should be determined so that an average wealth district could obtain a grant equal to 50% of the Recognized Debt Service Cost from the State. The State grant could vary from 80% for unit districts with equalized assessed valuation per pupil less than or equal to $10,000 to 20% for unit districts with an equalized assessed valuation per pupil equal to or greater than $40,000. Comparable equalization points would be determined for dual districts.

Operating Guides

1. The grant for Recognized Debt Service would be computed on the basis of a predetermined formula.
2. The local school district would develop a fiscal plan to meet the total cost of debt service.
3. Grants for Recognized Debt Service would be computed annually in accordance with a predetermined formula recognizing local taxpaying ability. The grants would be distributed annually to the local school district which would be responsible for making the debt service payments.

Advantages

1. An objective equalizing formula would determine the respective share of local and state governments.
2. The variable level of grants for Recognized Debt Service would provide local property tax relief.
3. Equalized debt service grants would provide a stabilizing effect on future local debt service tax rates.
4. Local leeway possibilities would not be exhausted as a condition for participation.
5. Multiple approaches could be used in the computation of ability to pay.

6. Continued participation by the State in the debt service program would enhance the marketability of local school district bonds.

Disadvantages

1. Inadequate budgetary appropriations might result in an ineffective level of State participation.
2. Participation would be limited to those school districts with debt service obligations.
3. State grants for debt service only could cause school districts to rely exclusively on borrowed funds for financing facilities.

Cost of Alternative

If the State recognized one half of the projected 1973 expenditures of approximately $150 million for bond retirement and $50 million in bond interest paid by local school districts, the Recognized Debt Service amount would be $100 million. Again assuming that bonded indebtedness servicing needs are skewed toward the poorer districts the State share might average 60% and would range from 20% to 80%. Thus, the cost of providing average wealth districts with a State grant equal to 50% of their recognized debt service requirements would be $60 million.

Equal Support for Equal Effort

This approach includes an incentive grant from the State varying inversely with local fiscal capacity, but actual construction or debt service costs would establish the project amount to be shared. An established formula based on the number of students inadequately housed and the local tax effort would determine the State and local percentages of construction project costs to be shared. The amount of debt service costs to be shared would be in proportion of the total outstanding debt incurred prior to the enactment of this legislation to the bonding capacity of the district.

Needs Measures

Grants could be allocated on a priority basis to serve first those districts which have the greatest need in terms of inadequately housed students or least available debt capacity Districts could generate up to $250 per pupil unit (annually) by setting a capital facility tax rate effort $.50 on a power equalizing basis.

Sources of Funds

The *local share* could be from fund accumulations and/or proceeds from local bond issues.

The *State share* could be either current appropriations or general obligation bond funds.

Grant Amounts

The amount of State aid would be determined by the level of local tax effort which would produce a variable equalization grant of a guaranteed amount—no more, no less. The grant amount would be keyed to a district with $50,000 assessed valuation per pupil. At this level of wealth the $.50 tax rate would produce $250 per pupil unit all from local sources. If the key district's tax rate were reduced to $.40 the guarantee would decline to $200 per pupil unit, a $.30 rate would produce $150, etc.

A district with $25,000 assessed valuation per pupil unit could set its effort level at $.40 and be guaranteed a total grant per pupil of $200 ($100 from local sources and a like amount from the State). If the district felt a $.50 effort was necessary the local amount would be $125 and the State would provide a matching amount to total $250. Thus a $.01 increase in the tax rate would generate $5.00 in total grant moneys regardless of district wealth (up to $50,000). Districts with wealth greater than $50,000 per pupil would not be permitted to raise more than $250 per pupil for capital facility or debt service purposes. Under this equalization feature, all districts regardless of fiscal capacity would have comparable capital facilities funds for comparable effort — each district would have revenue producing power equal to that of the key district.

Operating Guides

1. The local school district be required to submit a master facilities plan for the district to OSPI for approval.
2. The local school district would assume responsibility for development of educational specifications and specific plans for a needed facility. These planned facilities would have to be in accord with the approved master plan and OSPI standards.

Participation in this financing program would be subject to the conditions specified under operating guide #3, page 205.

The project would be subject to voter approval by referendum where the scope of the project requires the school district to issue bonds. The annual grant amount would be used to service such long-term indebtedness.

3. The district would prepare a grant application including estimates of project costs, the project plans, and a fiscal plan. CDB would review and approve the project if design, construction, and cost estimates met established standards for comparable facilities.

4. The local school district would be responsible for executing the construction contracts, receiving the completed facility, and making progress payments under CDB supervision.

5. A grant application for debt service assistance would include the district's equalized assesed valuation, bonds outstanding, and available capacity. The ratio of debt outstanding to debt capacity would determine the amount of debt service to be shared.

Advantages

1. The matching procedures incorporated in this program provide incentives for local districts to plan adequate facilities.

2. All districts, including those having low fiscal capacity, can provide comparable school facilities with comparable local effort.

3. Facility needs and specific project plans would be locally determined and could thus foster flexible approaches to meeting unique facility requirements.

4. A desirable degree of State control would be maintained with the requirement for State approval of the master plan of the district.

5. School facility financing would be a shared responsibility of local and state agencies.

6. The grant feature would provide immediate non-local support for the project.

7. Local leeway possibilities would not be exhausted; incentives for local initiative and adaptation would be provided by the open-ended nature of the matching program.

8. Multiple approaches could be used to determine local fiscal capacity.

9. Districts with current construction programs and those that made prior effort would receive aid.

Disadvantages

1. The level of required appropriations could have a significant immediate impact on State funds.

2. Inadequate appropriations might result in an ineffective level of State participation.

Cost of Alternative

The goal would be to provide up to $500 million in State and Local capital expenditures by 1978. This could be done setting a $.50 effort level for the key district. Statewide this would mean: 2,000,000 pupils x ($.50 TR x $50,000 EAV) = $500 million.

Local Effort and Output

Effort*	Revenue Output per pupil unit
$.10	$50.
.20	100.
.30	150.
.40	200.
.50	250.

* A $.01 increase in the tax rate effort — $5.00 in revenue.

Initially, the target could be set at $250 million by 1975 by establishing a $.25 effort level to produce $125 per pupil. The program could be phased in by incrementing the effort/output factors. The near term cost would equal $250 million of which $125 million would be State money.
(See Table 4 for a summary of State and local sharing.)

Full Statewide Equalization

This alternative would provide State grants for the full amount of an approved school construction project. The State would assume the responsibility for principal and interest payments for all public school

bonded indebtedness until all outstanding bond issues are paid. The program would be funded on a pay-as-we-build basis.

Needs Measures

The actual cost of an approved school construction project would serve as the measure of need. The citizens of a district by referendum would authorize a specific building project. Funds for site costs, professional fees, construction costs, equipment, and other related project costs would be obtained from State sources.

Sources of Funds

No *local* funds would be used.

The *State grant* would be from a Capital Facilities Fund. Moneys for this fund would be derived from a statewide real estate tax which would be sufficient to meet public school building and debt service needs. Another alternative would be to provide moneys for the Capital Facilities Fund from a combination of current appropriations (for prior debt service) and proceeds of State general obligation bond issues (for capital outlay purposes). An agency of the State Board of Education would administer these funds.

Grant Amounts

The amount of the grant would equal the total cost of approved construction projects and the total amount of annual debt service. Funds allocated could be used only for approved projects and capital facilities debt servicing.

Operating Guides

1. The State would assume any school construction costs and debt service costs not supported by the Federal government.

2. Local school districts would develop and submit educational specifications and district master facilities plans to the OSPI for review and approval. District building plans would meet prespecified criteria for design, construction, district size, and school location. Area cost differentials could be recognized.

3. Upon approval by OSPI funds would be advanced by a school building agency under the jurisdiction of the State Board of Education. This agency would administer the capital assistance program for elementary and secondary schools only.

4. The school building agency would request an amount equal to the total annual school building and debt service needs. The General Assembly would levy an amount sufficient to cover these needs via a statewide property tax rate to be extended and collected at the county level. Tax receipts would be sent to the State Treasury for school building agency use.

5. The local school district would be responsible for the construction program.

6. The State agency would disburse grants in accordance with the construction progress payment schedule to the school district.

7. The local district would be responsible for progress payments to the contractor, receiving of the completed facility, and final payment.

Advantages

The full State funded program has the following positive features:

1. A pay-as-you-go program could reduce expenditures for capital facilities since the interest charge on borrowed funds may represent 50% or more of the cost of a building. Total long term cost of facilities might be reduced by ⅓.

2. Full State funding of debt service would mean gradually diminishing payments until all bond issues are paid in full. The $50 million or so now spent annually on bond interest and service charges would no longer be incurred.

3. Placing the responsibility for administration of the program with an educational agency would preclude the public schools from having to compete for funds with interests representing all other state building programs and needs.

4. The excessive demands for school construction and heavy tax burden on growing communities would be eased.

5. State approval of building and site plans would reduce the duplication and inefficiency in building location and construction. Funds would be allocated only on the basis of needed projects at logical attendance centers.

6. Complete statewide assumption of the cost of school facilities and automatic equalization would occur.

7. Prior effort of local school districts to provide facilities would be recognized.

8. Local school districts would retain the responsibility for planning and operating school facilities.

9. If the State adopts total state financing of current operating costs, this alternative would constitute an orderly program for providing facilities.

10. Local tax leeway for financing other governmental services would be enhanced in many districts.

11. State funds could be obtained from any appropriate source, such as tax revenues or general obligation bond proceeds.

12. If borrowed funds are utilized, the substitution of the State's credit for local credit would result in reduced interest costs.

13. Local educational decision-making would be separated from fiscal concerns.

Disadvantages

1. Currently, there is excessive resentment against the property tax.

2. Local decision-making might be weakened.

3. State agency procedures and control might become excessive.

4. Local leeway available for financing innovative features would be reduced.

5. The State's budget would receive the entire fiscal impact of the program.

6. The heavy capital expenditures under a pay-as-we-go plan preclude spending these same current revenue dollars for other non-capital purposes, however meritorious they might be. These foregone opportunities might justify using long-term borrowing as a way to ease the immediate overall fiscal impact of full state funding and provide partial property tax relief by spreading the costs over a number of years.

Other Considerations

1. Statewide assessment practices and levels need to be reviewed and improved.

2. Real estate valuation and tax exemptions may need to be established for property owners with low and fixed incomes if the property tax is retained.

Cost of Alternative

This proposal merely shifts the burden from the local property tax to a state property tax. There is a potential reduction in expenditures, in the amount of interest expense, if the pay-as-you-go plan is adopted. Eventually, the reduction would amount to the equivalent of the $50 million now spent annually on bond interest and services charges. If the State issues general obligation bonds to fund this alternative there would be a reduction in expenditures equal to the ½% interest rate advantage accruing to the State's better credit rating.

Cost to local districts	=	— *$440 million.*
		— $240 million for capital outlay
		— $200 million for debt service
Cost to State	=	+ $440 million as above
(future)	=	— $ 50 million interest expense

Summary of Alternatives

On an overall basis these capital assistance proposals will not cost Illinois taxpayers any additional dollars beyond the projected needs. They do involve varying degrees of shifting of expenditures from locally collected funds (and proceeds) to State collected funds and State generated proceeds (see Table 4).

Table 4

Alternatives for Sharing Projected Expenditures
(all dollars in millions)

	1970-71	1973			1975			1978		
	Total	Local	State	Total	Local	State	Total	Local	State	Total
*Projected Expenditure**										
Facilities and Equipment	$237.1 actual			$240 est.			$440 est.			$550 est.
Debt Service	172.3 actual			200 est.			250 est.			300 est.
Total	$409.4 actual			$440 est.			$690 est.			$850 est.
Alternatives										
(1) Variable Grant Based on Recognized Project Cost		$ 96	$144	$240	$176	$264	$440	$220	$330	$550
(1a) Variable Grant Based on Recognized Debt Service Requirements		140	60	200	175	75	250	210	90	300
Total		$236	$204	$440	$351	$339	$690	$430	$420	$850
(2) Equal Support for Equal Effort		$125	$125	$250				$250	$250	$500
Other sources†		190	.....	190				350	.....	350
Total		$315	$125	$440				$600	$250	$850
(3) Full Statewide Equalization (Assuming pay-as-you-go)	Facilities	$.....	$ 40	$ 40	$.....	$440	$440	$	$550	$550
	Debt Serv.	.....	200	200	(50%)	125	125	(33.3%)	100	100
	Total	$.....	$440	$440	$.....	$565	$565	$.....	$650	$650

* Based on Table 8, p. 9, of "Status of Capital Assistance Financing for the Illinois Public Schools," Occasional Papers of this Committee, Vol. III.

† This amount required to meet projected needs would come from accumulated funds, long-term borrowing, federal sources, etc.

Recommendations

Legislative orders for action and appropriation of moneys should be developed to cover the following:

1. Implementation of a capital assistance plan that is congruent and supplemental to the plan for current fiscal support of the common schools. Appropriate sufficient moneys to fund the plan.
2. Appropriate moneys for administration of the plan, including the following:
   a. Funds for detailed analysis and continuing study of the finance situation. The many estimates and assumptions made herein due to the absence of empirical evidence must be validated.
   b. Funds for development of guidelines and standards for operation of the finance program.
   c. Funds for the planning, conducting, and reporting of a comprehensive facilities needs survey.
   d. Funds for the development and maintenance of a perpetual schoolhouse inventory to continuously update the information gathered in the facilities needs survey. Data and standards must be periodically updated due to technological and educational changes which contribute to obsolescence of facilities.
3. Enabling legislation and appropriations should provide for adequately staffed and funded departments to carry out the following functions and responsibilities:
   a. To provide assistance to school districts in the planning, construction, and financing of educational facilities.

b. To devise mutually acceptable standards, review specifications and proposals, and grant approval for educational matters and construction matters.

c. To develop and implement a financial plan that will utilize Federal, State, and local revenue sources in an orderly and concerted effort.

d. To develop guidelines and standards for cooperative, orderly planning at the Educational Service Region level; for projecting pupil populations, concentrations, and migration; for assistance in site selection and location; and for developing and preparing specifications for educational facilities.

4. If the real property tax is to be utilized in the finance plan, then the property valuation process should be revamped.

   a. Review and correct deviations from prescribed levels of assessment.

   b. Review existing exemption procedures. Provide a "circuit breaker" procedure for elderly and fixed income persons where definite hardship is involved.

   c. Standardize and professionalize assessment practices.

   d. Provide procedures for determining assessed valuation equalizers for individual school districts of over 1,000 pupils enrollment if assessed valuation inequities among local school districts cannot be reduced.

5. Permissive legislation should be enacted to permit cooperative planning among state agencies for facilities use, joint occupancy, and the acquisition and use of air-rights.

Administrative Action

Delegation of authority and responsibility should be as follows if both the State Board of Education (OSPI) and the Capital Development Board (CDB) are to be involved in capital assistance programs. If only one agency is to be responsible, it should be OSPI.

Areas of Responsibility

OSPI	*CDB*
• General educational matters	• General construction and fiscal matters
• Standards for educational design	• Standards for physical design
• Standards for social and demographic factors	• Construction effectiveness standards
• Standards for school district reorganization and regional master planning	• Construction guides and supervision
• Educational priorities and need determination	• Bond marketing assistance
• Authorization of fiscal support	• Disbursement of State bond proceeds
• Technical assistance to LEA's on legal, administrative, and educational matters in school facilities planning	• Technical assistance on legal, administrative, and fiscal matters pertaining to school construction

NOTES AND REFERENCES

1. *Occasional Papers* of the Superintendent's Advisory Committee on School Finance, Volume III.
2. Ibid., p. 14.
3. Illinois Bureau of the Budget, "An Overview of Capital Financing for Education in Illinois: Problems," p. 9.

CHAPTER SEVEN

REVENUE IMPLICATIONS FOR SCHOOL FINANCE SOLUTIONS

Introduction

Since the basic purpose of this chapter is to discuss some of the pertinent revenue implications of the various solutions, it may be important to describe the existing State-local revenue structure with particular emphasis on the problem of financing elementary and secondary education. (1) The first two tables will describe the existing revenue structure in Illinois. This is followed by table 3 which attempts to measure the distribution of the State-local tax burden by income class. Table 4 shows the sources of State and local funds for elementary and secondary education.

Table 1 shows the State-local tax collections in Illinois, by source, for the Fiscal Year 1970. This table indicates that the State provided 51.3 percent of the total State-local tax revenues, as contrasted to a rather extreme opposite position in the years prior to the enactment of the 1969 Illinois personal and corporate income tax law. The general sales taxes, more appropriately referred to as the Illinois Retailers' Occupation and Use Tax, ranked first and the income taxes second in State importance. For Fiscal 1973, however, the two sources are projected at roughly the same magnitudes.

Table 1

Illinois State - Local Tax Collections, By Source, 1970
(millions of dollars)

	Amount		Percent of Total State - Local Taxes	
State Taxes				
Sales taxes	$1,006		19.3	
Income taxes (gross)	748		14.4	
Motor fuel tax (gross)	329		6.3	
Cigarette tax	153		2.9	
Public utility taxes	140		2.7	
Liquor gallonage taxes	67		1.3	
Inheritance tax (gross)	65		1.2	
Insurance tax and fees	73		1.4	
Horse racing tax and fees	45		.9	
Corporation franchise tax	27		.5	
Other privilege taxes	18		.3	
Total State Taxes		$2,671		
Total Percentage				51.3
Local Taxes				
Property	2,227		42.7	
All Other	315		6.0	
Total Local Taxes		2,542		
Total Percentage				48.7
Total State - Local Taxes		$5,213		100.0

Source: State data from *The Illinois State Budget Fiscal 1973*, State of Illinois, 1972, Table II-A; local data from U.S. Bureau of the Census, *Government Finances in 1969-70*, Washington, 1971, Table 17.

At the local level of government, the preeminence of the property tax is clear. It provides almost 88 percent of the total taxes raised by local governments and 42.7 percent of all State-local tax revenues.

Table 2 is an extension of table 1 in that the general revenues sources for Fiscal 1970 are shown over and above the taxes from its own source. For the State, the two additional sources are its other receipts and federal aid. These amounts were $395 and $655 millions respectively.

Table 2

Illinois State - Local Sources of General Revenue, 1970
(millions of dollars)

	Amount		Percent of Total State - Local General Revenue	
State General Revenue				
Taxes	$ 2,671		32.9	
Other receipts				
Motor vehicle and operator license fees	224		2.8	
All other	171		2.1	
Total State Sources		$3,066		
Federal aid	655		8.1	
Total, All Sources		3,721		
Total Percentage				45.9
Local General Revenue				
Taxes	2,541		31.3	
Charges and miscellaneous	563		6.9	
Total Local Sources		3,104		
State aid	1,106		13.6	
Federal aid	178		2.2	
Total, All Sources		4,388		
Total Percentage				54.1
Total State - Local General Revenue		$8,109		100.0

Source: Table 1; *Illinois State Budget Fiscal 1973*, March 1, 1972, Table II-A; and U.S. Bureau of the Census, *Governmental Finances in 1969-70*.

For local governments table 2 show that various license fees, bridges, and other miscellaneous activities produce $563 million, about 22 percent as much as taxes. State aid was a substantial source ($1,106 million). Although federal aid has increased sharply since 1970 (when it was only $178 million), it is still not a major revenue producer for State-local governments.

Most tax studies, with few exceptions, conclude that property taxes are regressive. The data presented in table 3 are consistent with this proposition. It is shown, that for 1967, property taxes in Illinois were 6 percent of the lowest income class (under $2,000), and the percentage decreased consistently for each listed income class until it reached 2.1 percent for the income class $15,000 and over. Table 3 also reflects that the State flat-rate individual and corporate income taxes are mildly progressive. However, this is clearly not sufficient to counter the strong regressive aspects of the property tax and other state taxes. Thus the last two columns in the table indicate that the State of Illinois as well as the average state of the U.S. has a regressive State-local tax structure.

Although it should be emphasized that expenditures and revenues should be analyzed and evaluated in an integrated Federal-State-local setting, the purpose herein is to examine the primary question of financing elementary and secondary education in a State-local framework. Table 4 shows that

Table 3

State and Local Taxes as a Percentage of Total Income for All Illinois Families by Income Class — 1967

Income Class	Individual and Corporate Income*		Sales, Selective Sales, and Others		Inheritance		Property		Total	
	Ill.	U.S.	Ill.	U.S.	Ill.	U.S.	Ill.	U.S.	Ill.	U.S.
Under $2,000	.8%	.6%	6.0%	6.1%			6.0%	6.9%	12.8%	13.6%
$ 2,000 - $ 3,000	.7	.6	5.3	5.5			4.5	5.2	10.5	11.3
$ 3,000 - $ 4,000	1.0	.8	5.6	5.6			4.1	4.7	10.7	11.1
$ 4,000 - $ 5,000	1.1	.9	5.3	5.3			3.7	4.2	10.1	10.4
$ 5,000 - $ 6,000	1.2	.9	5.2	5.2			3.7	4.2	10.1	10.3
$ 6,000 - $ 7,500	1.4	1.0	5.0	5.0			3.3	3.8	9.7	9.8
$ 7,500 - $10,000	1.7	1.2	4.7	4.6			3.0	3.5	9.4	9.3
$10,000 - $15,000	2.0	1.3	4.2	4.2			2.9	3.3	9.1	8.8
$15,000 and over	2.8	2.4	2.7	2.7	1.1%	1.3%	2.1	2.4	8.7	8.8

* These taxes were not in effect in Illinois in 1967 but the burden was computed as it would have been had the taxes existed at that time.

Source: Edward Clarke, Richard Kolhauser, James Reed, *Bureau of the Budget Revenue Study*, (Unpublished report, State of Illinois, 1970)

Table 4

State and Local Revenues for Common Schools
School Years 1967-1973
(millions of dollars)

Year	State Aid	Local Revenue	Total Funds	Percent State	Percent Local
1967	$ 369	$1,014	$1,383	26.7	73.3
1968	492	1,230	1,722	28.6	71.4
1969	517	1,228	1,745	29.6	70.4
1970	787	1,651	2,438	32.3	67.7
1971	955	1,301	2,256	42.3	57.7
1972*	1,029	1,509	2,538	40.5	59.5
1973*	1,162	1,660	2,822	41.2	58.8

* Estimated funds.

Source: *State and Local Financing for Public Schools, 1972-73* (Springfield, Illinois Office of State Superintendent of Public Instruction, 1972).

in 1971 almost 58 percent of the total State-local revenues for financing elementary and secondary education in the Illinois public schools were provided from local funds. This source is almost exclusively that of the local property tax which coincidently also accounts for approximately 60 percent of the local property tax dollar. The State share which almost doubled in absolute terms in the period 1968-1971 was slightly more than 42 percent in 1971 and had risen by almost 15 percentage points over the prior four years. There seems to be a current trend, however, for the relative contribution of the State to have stabilized and perhaps fallen. In any event, this seems to reflect the present situation. It should also be pointed out that if Federal aid was included, the Federal share would be roughly 5 percent of the Federal-State-local total.

General Nature of the Problem

The state supreme courts or U.S. district courts have ruled that it is unconstitutional, primarily under the Federal Constitution, to finance elementary and secondary education under a system whereby a pupil's education depends upon the wealth of his family and neighbors as contrasted to the wealth or property of the State as a whole. Whether or not the U.S. Supreme Court confirms or rejects this reasoning is not known at this time, but various alternatives or solutions have been presented in this

report in hopes of improving the implementation of equal access to educational opportunity. What are its implications from the revenue side of the equation?

Irrespective of any possible U.S. Supreme Court decision in this matter, there is one revenue or resource issue which stands out above all others. If one assumes that the "equal access' concept is a desirable goal, then minimally there must be a shift of resources from the taxpayers of rich school districts to those of poor districts. The transfer is mandatory under any revenue or distribution system—full State funding or not, with little or complete dependence on the property tax, and with no necessary reference to the total level of resources or revenues in the system. All this suggests is that in a relatively full employment closed economy and with no change in the resources to be utilized for other goods and services, the poor become richer only if a transfer from the rich occurs.

There is a further reasonable assumption that revenue reform suggests an increase in the State's share of the total cost of financing elementary and secondary education. The court cases infer or state this explicitly. Those who argue this point on legal and equity grounds also stress that is is the State responsibility to assume this burden and that it cannot be delegated. In Illinois, Article X (section 1) of 1970 State Constitution states the following: "The State has the primary responsibility for financing the system of public education." Although it is not clear as to the meaning of this mandate, the Constitutional Convention rejected a specific proposal which would have required a 90 percent commitment on the part of the State in financing elementary and secondary education. In any event, there seems to be a mandate, until legislation and/or judicial action clarifies the issue, that the State assume a majority or minimally a 51 percent portion of the total cost. This proposition is clearly consistent with the prior point that the state share should increase (see table 4).

In this section of the study, there is no explicit statement as to the necessary or desired level of spending. It is recognized, nevertheless, that this revenue amount is a function of many variables, including the quantity and quality of educational service, the State share of the total cost, and subsequent court rulings in this matter. However, it is presumed that an equitable revenue system is a worthy goal regardless of the level of resources and revenues. In other words, the distribution of the tax burden is a viable issue with which the policy makers must be concerned. It further suggests the concern for equity, not only between tax or revenue sources, but within a given tax structure. An example of this latter point is the extremely poor administration of the property tax, and in which equity could be improved through more efficient tax administration.

Much has been written about a model State-local revenue system and the criteria to be utilized in making the evaluation. (2) Since neither the economist nor any other social scientist has developed a magic formula, this concept of an ideal tax structure is limited at best and appears to be appropriate only relative to the criteria which the proponents are attempting to maximize. Although it was not indicated in this same context, a recent study by the Advisory Commission on Intergovernmental Relations (ACIR), listed the two most critical features of a high-quality State-local revenue system:(3)

1. Balanced use of both the personal income tax and general retail sales levy;
2. State revenue system productive enough to finance most of the cost of elementary and secondary public education.

The ACIR study indicated that only Hawaii and North Carolina scored highly on these two major tests. Illinois, as did many other states, succumbed to the strong pressures in favor of creating a dual income and sales tax system, with the adoption of a State personal and corporate income tax law in 1969. (4) There is, however, a countervailing power or pressure, frequently termed the "taxpayers revolt." Many states will not move to the dual system because of this latter pressure. Furthermore, if the dual system exists (as in Illinois), the no new or increase in taxation cry is heralded throughout the land. Illinois was not unusual in that both gubernatorial candidates in the 1972 election pledged no increases in taxation.

There are other facets to the question of improving the quality of the State-local revenue system. As long as the real property tax remains as a major source in Illinois, it must not be ignored. Minimally, some attention should be directed toward the improvement of equity in the original assessment and general property tax administration. This paper does not treat this latter subject lightly as witnessed by the fact that the largest part of this chapter is devoted to this subject.

Another issue is that of the desired responsiveness of the revenue system to economic growth or changes in income and employment. The question may be stated as follows: Does our present revenue system for financing elementary and secondary education respond adequately to the changes in expenditures or demands for educational services? There is some evidence that frequent but inadequate short-run changes in the revenue base were necessary in hopes of maintaining a reasonable pace with the increased pressures for spending. Many would argue that a highly elastic State-local revenue system would be more desirable.

Improvement in the Administration of the Property Tax

During most of our history the property tax has been the most important and most criticized tax source for local governments. Public finance experts have been most adamant in the struggle and have doomed this revenue source for more than sixty years. In Illinois, however, school districts rely almost exclusively on the property tax for the local contribution to education. The weakness of the property tax, primarily administrative, are widely known. Nevertheless, this important tax provided almost $1.7 billion in Fiscal Year 1971 out of total receipts of roughly $2.8 billion. The State's contribution to elementary and secondary education (state aid) is approximately $1.0 billion or equal to the non-educational revenue from the local property tax.

Although this tax has many weaknesses, there seems to be little or no chance that Illinois or any other state is seriously considering the possibility of completely eliminating the property tax. If this assumption is correct, the challenge facing the people of the State of Illinois is the necessity or opportunity of improving the administration of the property tax. In this context, the following are recommended. (5)

A. *County level*

1. Abolish township assessors and require each county board to appoint a county assessor and deputies from a list of State-certified eligibles.

   This move is essential if the process of selecting assessors and making assessments is to improve. Full-time, qualified assessors is the absolute minimal requirement necessary in improving property tax administration.

2. Adopt permissiye legislation which would encourage small counties to merge the local assessment functions or share costs and require the smallest counties to do so.

3. Appoint members of multi-county or county Boards of Review and Equalization from a list of State-certified eligibles, with each multi-county or county board covering a sufficiently large area or population to warrant the creation of a board of competent people.

   This procedure should be more effective in providing qualified persons to handle the difficult and technical task of reviewing and equalizing assessments.

4. Sales ratio data, publicized annually and widely by the State, should be acceptable as evidence in local and state appeals, and any assessment in excess of or less than 20 percent of the median value should be made prima facie evidence of the need for relief.

   Little publicity is usually given to sales ratio studies. These data are both important to the assessor and taxpayers and should be utilized in efficient tax administration which has a basic goal of providing greater tax equity.

5. The yearly tax bill should state the true or market value of the property as appraised and recorded by the assessor and the fractional statutory level of assessment.

   This is additional information which hopefully places the taxpayer in a better position to understand his assessment and the overall question of equity.

6. Assessors should be required to maintain assessment records in accordance with some minimal land-use breakdown, e.g., single family residence, apartment, industrial, commercial, farm. etc.

   This information which is currently not available for most counties is essential in economic and tax analyses and especially in determining the distribution of or at least the initial impact of the tax burden.

7. The taxpayer should be required to provide information as to the description and value of his property; the assessor should be permitted the opportunity to inspect pertinent records of taxpayers and the right of subpoena when this is denied.

   The assessor's task is extremely difficult, and cooperation by the taxpayer may be essential in improving tax administration. The type of information requested is frequently obtained by threat on the part of the assessor and legally by the Board of Review after assessment. This recommendation is an attempt to provide a more efficient and equitable procedure in obtaining the original assessment.

B. *State level*

1. The State of Illinois should defray at least one-half of the total cost of property assessment.

   This would provide needed revenues for local governments and may result in increased efficiency through increased involvement and supervision by the State over the local property tax.

2. The State should expand materially, both statutorily and with resources, its assistance and supervisory duties, including the testing and certification of eligibles for assessors and members of Boards of Review and Equalization; conduct or coordinate schools, courses of training and conferences; publish manuals and handbooks; and provide appraisal assistance to local assessors.
3. The State should assess privately owned public utilities and other types of large complex and difficult-to-value commercial and industrial properties.

   Although Assessors' Manuals are available to most local assessors, the task of making efficient and equitable assessments of these properties is formidable and frequently almost impossible. It seems logical to centralize resources and provide increased uniformity and equity in these assessments.
4. The assessor should be required, in accordance with standards established by the State, to publish a statement indicating the valuation methods employed by his office in valuing property.

   This would give the taxpayer increased knowledge as to how his property was assessed and may aid him in determining whether his property was assessed equitably.
5. In those cases where a substantial portion of a local taxing jurisdiction is in more than one county, a special assessment equalization procedure should be established by the State.

   This is directed at the basic problem of equity between taxpayers in a given school district. For example, the owners of two parcels of real property, assessed by two different assessors from the two counties involved, may be assessed at ratios to the market value of each property which reflect a tremendous disparity. Intercounty equalization by the State of Illinois does nothing to ameliorate this problem. Therefore, there is a real need for this special equalization procedure as recommended.
6. The law should be clarified as to the meaning and scope of exempt property; exempted property should be valued and listed on the assessment rolls.

   There is a lack of standardization as to the definition of exempt property. In many geographical areas, there is little information as to the magnitude of the value of exempt property. For many reasons, including the possibility of substituting a form of user charge in lieu of a tax, the quantitative importance of the tax loss on exempt property ought to be ascertained.
7. Every owner of exempt property should be required to reinstate its exempt status initially and then periodically through formal application to its respective county and the State; a scheduling procedure should be established which would permit initially at least that this be carried out over a reasonable time period.

   Many parcels of real property were never legally exempted. Furthermore, the status and/or ownership of property changes frequently and requires reevaluation.
8. A State Property Tax Survey Commission or Board should be created to examine property tax issues on a continuing basis, including the legal structure, exemptions, State and local equalization and review, and other pertinent aspects of State-local tax administration.

   The quantitative importance of this tax and the complex issues related to equity require its continuous study and reevaluation.

Statewide Property Tax

A number of states, including New York, California and Michigan, have been considering a statewide property tax as a major source of revenue in financing elementary and secondary education. It has also repeatedly been suggested as a replacement for the local property tax now being utilized to finance public schools. There are no basic legal problems in Illinois if the General Assembly were to levy a State property tax, although the last levy was set in 1932.

There are some advantages to such a tax. First, the local property tax is a large revenue producer in Illinois, currently yielding approximately $2.8 billion. This is the largest single producer of revenue in the State-local tax structure. Although it has been criticized for not meeting this criterion perfectly, the real property tax somewhat meets the test of taxation for benefits received better than most other taxes. It is possible to reinforce the above two arguments or advantages with the concept of improved property tax administration through greater uniformity and equity in the State assessment of a statewide property tax. Furthermore, this tax is clearly consistent with the usual interpretation of the *Serrano* and *Rodriguez* cases.

There are many strong arguments against a State property tax. These seem to outweigh the logic of the proponents. The tax is regressive (table 3) and property values do not respond to economic growth as

rapidly as the personal income or sales taxes. Furthermore, this is an unusually complex tax to administer and becomes even more of a problem when inefficient and/or inadequate resources are allocated to this important function. It should also not be understated that society, i.e., the taxpayers, find the property tax excessively distasteful as compared to all other taxes.

The Minnesota legislature recently passed a bill which attemps to equalize property tax resources in the seven-county Minneapolis-St. Paul area by sharing the growth in the tax base. Forty percent of the net growth of the commercial and industrial valuation will be shared by all of the communities in the area. This type of regional scheme hopes to minimize tax competition within the region. It should help partially at least to solve some of the fiscal problems related to the financing of education within this region. This type of scheme deserves careful consideration by Illinois and other states.

Another limited version of a State property tax concerns the possible utilization of a statewide property base such as all commercial and industrial property. This class could be modified to include only public utility, complex, and difficult-to-value property. The logic suggests that resources and expertise are usually unavailable at the local level to do an adequate job in the equitable assessment of these properties. (6) Therefore, centralize the minimal but efficient resources at the State level and insure satisfactory results. Data are not available to show either the true or market value of all commercial and industrial property in Illinois on a county basis or in the aggregate. Study indicates, however, tremendous variation in assessment practices throughout Illinois. It is also important to recognize the size of this base for tax purposes which is estimated at approximately $20 billion, *real* industrial and commercial property only.

The issue of full state funding as one of the alternatives in the financing of public schools raises unique and interesting questions concerning a statewide property tax. If full state funding is mandated by the U.S. Supreme Court or desired voluntarily by the people of Illinois, pragmatism may be instrumental in dictating the adoption of a state property tax. It would now be presumed that the State of Illinois would have the full responsibility of providing the revenue from its own sources. Therefore, assuming no local leeway, there would be no local property tax for school finance. The economic effects from sudden drastic reductions in property taxes, including sharp increases in property values, would disrupt the economy immeasurably. Furthermore, it is inconceivable that Illinois or any other state could dismiss a magnitude of $1.6 billion without attempting to recapture all or some major portion of this source through a substitute statewide property tax. After all, the money involved is roughly one-third greater than the total sum now generated by the Illinois personal and corporate income taxes. For example, this would require the present personal and corporate tax rates of 2.5 and 4.0 percent to increase to 6.0 and 10.0 percent respectively.

This topic may be summarized by suggesting that a general statewide property tax is not a viable alternative in the solution to the basic problem of financing public schools unless it is further accompanied by full state funding. However, if inequities are to be reduced in the administration of the property tax, increased state involvement and supervision are necessary. Steps in this direction which are worthy of serious consideration include a regional approach such as the Minnesota plan and/or a statewide property tax on industrial and commercial property.

Alternative Revenue Sources

In this last part of the revenue chapter several potential sources of revenue will be examined and some recommendations explicitly stated. There is no attempt to isolate the funding recommendations with any particular solutions as outlined in the other chapters, except to recognize some of the special issues related to full state funding. Furthermore, the level of financing is not rigorously specified, but it may be assumed that it approximates $200 million. It is recognized that this educational expenditure is only one of several demands placed on the Treasury but nevertheless an important one. The conclusions in this section obviously represent more than scientific analysis and imply ethical values and judgment concerning a possible reordering of our priorities.

1. *Growth of State Sources in the General Revenue and Common School Funds.* This figure has been increasing at a rate of roughly 8.5 percent in the past two years and even when the economy of Illinois was not too healthy. If one projects an increase of only 6 percent for Fiscal 1974 (during a period of projected increased growth and prosperity in Illinois and the nation), this would produce an increase in funds of slightly more than $186 million. It is recommended that 50 percent of this increase or $93 million be further allocated in 1974 to the financing of elementary and secondary schools. This increased commitment for public schools would continue to increase over time and reach roughly $650 million in Fiscal Year 1979. It should be emphasized that these figures do not include the federal aid which has also been an integral part of the General Revenue and Common School Funds.

2. *Revenue Sharing.* Congress recently passed the "State and Local Fiscal Assistance Act," i.e., the federal revenue sharing bill. In the first full year of operation Illinois should receive almost $300 million, with general purpose local governments (other than school districts) and the State receiving $200 and $100 million respectively. Over the five year period through calendar 1976, when the Act expires, the State's share is roughly $520 million. Although there will be many strong demands for these additional State dollars, it is recommended that for fiscal 1974 and subsequent years at least 60 percent of the available $105 million, or $63 million, be allocated as additional state aid to public schools.

3. *State Income Tax Revenue Sharing with Counties and Municipalities.* The State currently rebates or shares one-twelfth of its net income tax receipts with counties and municipalities. For Fiscal 1974, this amount should reach $100 million. Although some of our cities face serious financial problems, there may be sufficient reason for reevaluating the position the General Assembly reached when the legislation was originally passed. The issue may be raised as to whether some of these funds should be reallocated to educational finance. (7) There are minimally two reasons for suggesting this possibility. First, the $200 million addition to these local units from federal revenue sharing is rather significant. Secondly, the governments and the people of Illinois should face the dynamics of our social world and the nature of possible changes in our priorities. Politicians are most tempted to dodge these questions, but in effect they are answered by default or otherwise.

4. *Revenue from One Percent Local Sales Tax.* It is estimated that local governments will receive in Fiscal 1974 almost $265 million from its one percent general sales or use tax. The issue is comparable to the one raised in 3 above. Assume a situation in which community A or an unincorporated area has one or more large shopping centers and no school finance problems and receives substantial revenues from the sales tax, but community B has acute school finance problems and no shopping centers. Is this a desirable attribute of a State-local revenue structure, given the specific issue, among many, of providing and financing public education?

5. *General Sales Tax.* The general sales tax for the State of Illinois, currently at a rate of 4 percent, is another potential source of additional revenue. Table 5 shows that an additional one percent would produce in fiscal 1974 an amount of $315 million. This is an exceptionally large amount and is attractive and often utilized when additional dollars are required. However, table 3 shows rather clearly the regressive aspects of the sales tax. Since Illinois does not exempt food or most services, the tax is even more regressive than many other states. It is *not* recommended that this revenue source be utilized without compensating reductions in 4 above.

There is another aspect to this tax which might appropriately be considered, i.e., the broadening of the sales tax base to include other services. Not only would this change in the base reduce its regressivity, but it would also make the source more elastic. As was mentioned in the second part of this chapter, it may be desirable to make the fiscal system for financing education more responsive to the demands for the services. Many economists in the field of public finance (8) have contributed to a vast body of thought on this subject. Much has been written in connection with broadening the base about various issues including its administration, regressivity, elasticity, and revenue potential. It is conservatively estimated that for Fiscal

Table 5

Projected State and Local Revenue Sources, Fiscal 1974
Per One Percent Rate
(millions of dollars)

Source	Revenue
State	
Sales taxes (net)	$315
Personal income tax (net)	374
Corporate income tax (net)	58
Local	
Real property tax	412
Personal property tax	78

Source: Local data from Richard Fryman's unpublished paper, "Illinois State and Local Tax Revenues (Projected through 1980)", Springfield, Finance Task Force of Governor's Commission on Schools, 1973; State from *The Illinois State Budget Fiscal 1973* and projections.

1974 Illinois could broaden the base and increase its sales tax revenue by roughly 10 percent or $125 million. (9) Therefore, if additional revenues are necessary, this is a source worth considering.

6. *State Income Taxes.* The individual and corporate income taxes are currently yielding about $1.2 billion. Most students of public finance rank this source at the top of the list when considering two important criteria—productivity or adequacy and equity—in evaluating a tax. Table 3 also shows that the income tax is the only progressive tax in the State-local tax structure.

Table 5 indicates that for Fiscal 1974 a one percent increase in the personal and corporate income taxes would raise $374 and $58 million respectively. The current tax rates are 2.5 and 4 percent respectively. There is also a constitutional restriction (Article IX, section 3) which states that the rate imposed on corporations "shall not exceed the rate imposed on individuals by more than a ratio of 8 to 5." Although very few tax increases are welcomed by taxpayers, this source would be highly recommended if additional revenues are deemed essential.

7. *Property Tax.* A number of important changes have occurred in the property tax base in the past three or four years. In 1969, one automobile and one household of furniture were exempted and a homestead property exemption of $1,500 was granted. There were some legal problems related to these exemptions which apparently have been solved. In 1972, further legislation was enacted which exempted all income producing agricultural personal property and a $5,000 exemption provided for individuals and businesses. The Illinois Constitution (Article IX, section 5) further requires that all ad valorem personal property taxes be abolished by January 1, 1979 and all revenue lost by school districts and other local units of government be replaced from statewide taxes.

Illinois has also enacted "circuit-breaker" legislation which currently provides real property tax relief to the elderly up to a maximum of $500 when measured against income. This does not reduce the tax base since it operates on the principle that the taxpayer or renter receives rebates directly from the State. It is recommended, however, that the "circuit-breaker" principle be utilized for other low income families regardless of their ages. This also suggests the furtner point that every effort be made, not only with the property tax, to reduce the disproportionately high tax burden now borne by many low income taxpayers. Several states have accomplished this goal through the use of sales tax credits against the state income taxes.

Table 5 shows that a one percent increase in the property tax rate would produce $490 million — real property, $412 million and personal, $78 million. This is roughly 17 percent of the aggregate property tax yield for 1974. However, it is not recommended that the property tax be increased. This must not prevent or slow down the process of implementing the action necessary in improving all aspects of property tax administration. Because of the constitutional mandate and other pressures, the relative and possibly the absolute level of the property tax will and should decrease. There will be reductions in the revenue yields to school districts (and other local units) and/or replacement demands from state revenues. The State of Illinois must be in a position to meet this revenue challenge as well as the overall question posed herein — providing the necessary revenue sources for financing elementary and secondary education.

Much discussion, debate, and a Special Session of the Illinois General Assembly (November 26, 1972) were focused on the critical issue of a "property tax freeze." It was argued that a freeze of the 1973 total tax extensions for each local unit of government was necessary in order to bring to a halt the increases in property tax burdens and further cause school districts and other local governments to reevaluate their spending programs. Although the "freeze" was not passed, there is some merit in position of the proponents. However, it does not appear to be the most feasible and defensible solution to a very involved question. If the basic goal is to reduce disparities between school districts and provide an adequate level of State support, there is no real substitute for attacking the problem directly. A more equitable formula must be adopted for the distribution of funds, and an adequate and equitable State-local revenue system must be established and maintained.

NOTES AND REFERENCES

1. It should be stressed that this is not a tax or revenue study, i.e., no original research in such important areas as tax incidence, distribution of tax burden, economic effects of taxation, etc. Most of what is included herein has been stated or written elsewhere. Important references in this area of Illinois state and local finance include *Report of Revenue Laws Commission of the State of Illinois*, Springfield, State of Illinois, 1949; *Report of the Commission on Revenue*, Springfield, State of Illinois, 1963; *The Illinois Task Force on Education* — Sponsored by the Governor, the Superintendent of Public Instruction, and the School Problems Commission, Springfield, April 1966; *Report of the Governor's Revenue Study*, 1968-69, and *Illinois State and Local Finance*, Final Report and Background Papers, Institute of Government and Public Affairs, University of Illinois, 1969.
2. See Leo Cohen, "A Suggested Framework to Alleviate the State-Local Fiscal Dilemma," *National Tax Association Proceedings*, 1963, pp. 431-441.

3. *State-Local Revenue Systems and Educational Finance*. A Report Presented to the President's Commission on School Finance, Advisory Commission on Intergovernmental Relations, November 12, 1971.

4. In fact, the strong position in favor of a State income tax by the former Governor of Illinois may have been a contributing factor in causing his defeat in the election of 1972.

5. Many of these recommendations are similar, if not identical, to the recommendations in *A New Design: Financing for Effective Education in Illinois*, Final Report of the Finance Task Force, Governor's Commission on Schools, Springfield, December, 1972, pp. 56-61. A number of the members of the Superintendent's Advisory Committee were also members of the Governor's Task Force.

6. *Supra*, see section on "Improvement in the Administration of the Property Tax" (state level, recommendation number 3).

7. See Governor's Commission on Schools (Finance Task Force), *op. cit.*, p. 52, wherein it was recommended that the yearly municipality and county income tax receipts be frozen at their Fiscal 1973 amounts. Consequently, for Fiscal 1974 the recommendation is that the increase of $8 million, 100 percent of the increase in State income tax sharing(and for subsequent years), be made available for public school finance.

8. Heins, A. J., "Sales and Use Taxes," *Report of the Commission on Revenue*, Springfield, 1963, pp. 652-701; Schoeplein, R. N., "Some Perspectives on the Sales Taxation of Services," *Proceedings of the National Tax Association*, 1969, pp. 167-176; and Ghazanfar, S. M., "Retail Taxation of Services: Equity and Revenue Effects," NTA Proceedings, 1971, pp. 582-590, among others.

9. Schoeplein, *op. cit.*, p. 168, estimated that for California a broadening of the base to include selected services, but not professional, would increase tax yields by 20 percent. However, California did not tax any services, not even transient lodging. In another unpublished paper, "Tax Innovations and Tax Trends: Potential Revenue Sources for the State of Illinois," Urbana, October, 1971, Professor Schoeplein estimates that "Illinois tax yields would increase by about 15 percent if all services were included." (roughly $175 million).

CHAPTER EIGHT

MEMORANDA OF COMMENT, RESERVATION AND DISSENT

FULL STATE FUNDING

G. Alan Hickrod
Demur on Full State Funding

In 1835 Alexis Charles Henri Clerel de Tocqueville wrote, "The passion for equality penetrates on every side into men's hearts, expands there, and fills them entirely. Tell them not that, by this blind surrender to an exclusive passion, they risk their dearest interests, they are deaf. Show them not freedom escaping from their grasp, whilst they are looking another way; they are blind, or rather, they can discern but one object to be desired." De Tocqueville can not be accepted as a totally unbiased observor of course; after all, the young aristocrat's grandfather had been dispatched on the guillotine in the name of "Liberty, Equality, and Fraternity." Still his warning is appropriate I think, when one considers the dangers of an *exclusive* commitment to the goal of fiscal equalization.

At the present time in Illinois, and in most other states, educators tolerate a certain amount of inequality in school expenditures as the price they pay for engaging in a game of "catch up." The rules are widely known but seldom frankly discussed. Essentially the game proceeds by having the wealthier districts move their expenditures levels upward, and then the educational community places pressure on state governments to assist the poorer local districts in trying to catch up, within a reasonable distance, of the leaders. That we haven't been playing this game very well, that is, that the poorer districts are not catching up very fast, is now apparent to even the most casual spectator of the sport. However, I for one, am not at this point prepared to give up this game though I do wish to change the rules to favor the poorer districts. Full state funding will end forever our little game of "catch up" and place the decision regarding how well, or how poorly, K-12 education will be funded entirely at the state level. Initially there may not be too much danger since "leveling up" is much more likely than the unpopular process of "leveling down." But what happens *after* expenditures are initially leveled up? I submit it is quite possible that having given up our local leverage factor we could find support for K-12 education languishing as the General Assembly is faced with many other demands for state money other than for public education. There are other problems connected with full state funding, not the least of which is the difficult question of state-wide collective bargaining. Space will not allow me to develop these points here. In brief, my position on full state funding must be: "not yet, not until we try with some new rules for an old game."

The old rules under the Strayer-Haig approach don't seem to work for a large number of reasons. Not the least among these is the fact that the foundation level is kept too low and the formula is deliberately "flawed" in order to aid wealthier districts. A new set of game rules outlined in chapters three and four of this report should be given, in my opinion, a fair chance. A trial period of five years should be enough to evaluate the effects under one or more of the effort formulas that have been proposed. I must honestly admit that I am not overly optimistic about the ability of any of these effort approaches to equalize educational expenditure levels. It seems quite plausible to me that the wealthier districts, placing a greater value on education, will exert greater effort and therefore receive more state aid once the new rules become fully known. But, again, we should at least try this approach before we give up what I firmly believe to be the considerable leverage effect on spending that local decision-making has afforded us in the past.

The exact form of the "equal expenditures for equal effort" approach is a matter for legislative consideration assisted by expert opinion. Chapters three and four make a good start in this direction, and this line of investigation and inquiry should be continued. These effort formulas can, of course, suffer the same fate as the foundation level formulas and one needs to be ever on the alert against those forces that would emasculate equalization formulas no matter what they look like. If the "equal expenditure for equal effort" approach fails to accomplish what the public desires regarding equalization of educational opportunity, or if it is found wanting by the courts, then we must face the fact that full state funding is the only remaining alternative. It is to be earnestly hoped that this alternative will not also lead educational funding in Illinois to the guillotine.

Ben Hubbard
A Dissent to the Major Position Taken by the Committee

The Recommendations section of this report accurately reflects the positions taken by the Committee. I, however, cannot concur with the position that full state funding is desirable. I do not believe that it is either desirable, practical or feasible as a means of funding education.

The system proposed is ably documented and is in my judgment honestly presented in the belief that all children would under the system have a theoretically equal opportunity to at least have an equally funded education. I support the principal of moving as nearly as possible to a system of equal funding for *equal needs* but simply believe that a state system of financing the entire package by the state would create a bureaucratic nightmare. It is in fact at the point of *equal needs* that I believe the first great problems lies. It is difficult to get educators to decide this question even by a majority vote but it would be impossible to get a political body to make a decision that would be based on pure fairness to all. Both the agency that assembled the data to have diversified funding for different needs and the legislative body that would enact such guidelines are by their very nature subject to power politics. When this point of decision is in Springfield and is contrary to the best interest of students or the people, it will be more difficult to change. I prefer not to leave change to the judicial system, at least I prefer not to build a system that guarantees this to be the only recourse for citizens.

The second major objection is in the area of control. The system is proposed based on the belief that control does not necessarily follow when funds are supplied by a particular level of government. It is true that without full state funding we have much state control and that the state could decide to leave even more control of non-fiscal matters than is done at present to local boards with full state funding. I simply have no conclusive proof, not a single example, of state government taking over the financing of any major service and leaving its control to a different level of government. This causes fears that the system would result in negotiation at the state level with the General Assembly; a single salary schedule for the state; schools forced to increase or decrease their expenditures for education based on a decision made at 3:00 a.m. on July 1 with the clock still saying 11:55 on June 30; the state bureaucracy failing to function quickly enough to meet local problems and many more similar concerns. Simply put, I fear full state control either with the enactment of full state funding or shortly thereafter. I believe that local boards for adequate local districts with the power to secure equal funds as proposed in several other approaches described in this report can bring about a much more equitable solution to the equity and operational problems of education than can full state funding.

It does not seem to me to be practical to expect the General Assembly to fund education at the level recommended in the Full State Funding Section of this report. In this event the only way to reduce the cost of the system would be to lower the support level. I believe that the level that could be set in the practical arena of politics would force mediocrity. Further in time of scarce funds and/or ineffective representation of the education point of view in Springfield it would be simple for the state to fail to meet its commitment and let the level of education deteriorate with no local system of keeping expenditures up even in the short run.

I believe the strong support for full state funding is founded on an over-zealous belief that equity, interpreted as equal expenditure, is the overriding and perhaps only important consideration in the funding pattern for education, that the system will be perverted if enacted by the necessary political considerations; and in the long run can be used effectively to lower the overall level of spending for educators rather than producing the desired result.

Further, I am convinced that the failure to partially support education at the local level would through time reduce local interest in schools and would cause decisions to be made on bases other than the most economical way to perform a task. As inefficient as the present system sometimes is, I believe that all funds furnished by the state would compound rather than correct this problem.

I believe that a move to full state funding would merely change the direction of the attack on inequities. Inequities exist and they should be corrected but even a definition of what is an inequity cannot be clearly agreed upon. I prefer to move to correct inequities rather than to build a system to attack the problem from a different direction.

The cost, the loss of local initiative to economize, the danger of bureaucratic control of local schools, the possibility of forced mediocracy when the state chose to cut back support, the possible loss of interest by local citizens and the real fear of going to an untried system of financing based on philosophies which I doubt are fully shared by the people or their representatives, and other reasons not documented here, cause me to dissent from the view that full state funding is the answer for Illinois.

Donald V. Strong
Memorandum of Dissent

I strongly concur with the comprehensive and thoughtful dissents of Hubbard and Hickrod. Little more can be said save to to reaffirm my conviction that full state funding as proposed would ultimately operate to the detriment of education in the State of Illinois. I support and seek with urgency truly equal access to educational opportunity for every Illinois student. I support the need to raise the overall level of state support for education, and I will continue to strive to eliminate the functional inequities of inordinate dependence on archaic and unequalized practices such as those inherent in both the application and access aspects of the present Illinois tax and school support systems. I support the need to increase support for the handicapped and the disadvantaged, and also to significantly raise the quality and equity of support for all students in our state. I cannot concur, however, in the assumption that the system of full state funding envisaged would accomplish this. I believe it would be ultimately revealed as the touchstone of an unworkable and bureaucratic system of centralized control and restraint which could not only deny to our schools the vibrancy and challenge of genuine local control and decision-making, but would also result eventually and inevitably in a *"leveling down"* process which would breed mediocrity and would sap the vitality of those educators and citizens who struggle to challenge the status quo and move forward toward new levels of aspiration and achievement in education. I believe we have all shared fundamentally common goals. I feel strongly, however, that the alternate methods of achieving these goals outlined under the heading "Equal Expenditure for Equal Effort" offer infinitely greater hope for progress and success, without the probability of the potentially debilitating consequences noted herein and delineated so well by Hickrod and Hubbard.

EQUAL EXPENDITURE FOR EQUAL EFFORT

"If the equal expenditure for equal effort approach to equalization is adopted as the interim financing system, the following recommendations are submitted for implementing the plan."

Ben Hubbard

Since the Committee has agreed to the statement in "General Recommendations" that "Despite extensive debate and discussion, the Committee could not arrive at a consensus on only one strategy to recommend as a means of reducing fiscal disparities," I believe that the wording of the above statement would be more appropriately stated as: "If the equal expenditure for equal effort approach to equalization is adopted *or is used as the transitional financial system to full state funding,* the following recommendations are submitted for implementing the plan." The same wording should also be used in the statement relating to the Strayer-Haig approach.

"Each district's expenditure level per instructional unit will be the proportion that its local tax rate (based upon statewide equalized assessment ratio) bears to a reasonable limit to be assigned to property tax."**

***"Suggested local tax are $2.50 for unit districts and $1.55 for each dual district."

Ben Hubbard

To the above footnote the following should be added . . . *"or the tax rate might be set at a different level depending on the funds the state was willing to expend. In addition, it would be satisfactory to set dual district rates as a proportion of the weighted pupil population in the respective type of district. Whatever tax rate is set, all districts should be able to go to the rate by board action."*

"Local tax leeway above the established limit for the equalization goal should be limited to 15-20 percent of the maximum equalization rates. This leeway should be reviewed at the end of the five-year period."

Robert Schoeplein

Fiscal formulae designed to achieve 'equal expenditure for equal effort' in themselves may induce high income households in the wealthiest school districts to seek alternatives outside the school district budget to supplement local public education. The addition of per-pupil spending ceilings would magnify incentives to seek conduits to effectively circumvent statewide regulatory "straightjackets". Theoretical or academic considerations aside, statewide spending 'ceilings' will not assure equal access to quality education and, indeed, may be counterproductive to strengthening statewide public education.

Ben Hubbard

I concur but feel strongly that this provision should be in a separate law to the formula. Because of the many legal problems that the Serrano type case may cause relating to tax leeway, I believe that this should not be a part of the basic funding legislation. This would make it easier to determine whether or not the courts would allow this without jeopardizing the entire system.

STRAYER-HAIG

"The percentage add-on should be increased to 50 percent for all unit districts and 60 percent for all elementary and secondary districts. An additional 10 percent add-on should be given to unit districts with 1,000 or more WADA, secondary districts with 300 or more WADA, and elementary districts with 700 or more WADA."

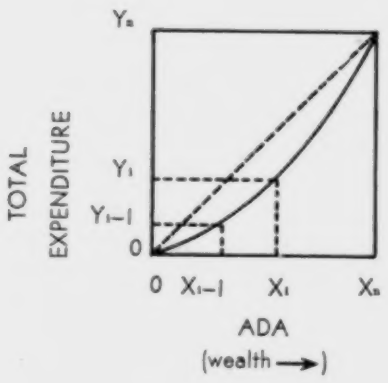
Ben Hubbard

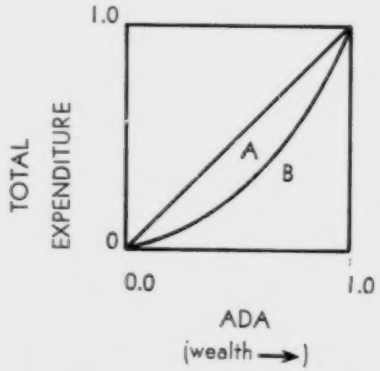
I would accept this only as an interim approach since I believe that a formula should be developed that can be explained more simply than the add-on feature. Having written the first proposal to use the add-on percentage, I recognize its usefulness but object to it as a permanent solution. Increasing the formula by the percentages proposed gives many districts a great deal more money while they keep the same minimal effort. I believe that increases of this magnitude should go only to districts making substantial effort. I strongly support a minimum size for all districts that are to receive this aid and prefer that they be 1,200, 500 and 1,000 respectively.

APPENDIX A

COMPUTATION OF GINI COEFFICIENT

For measuring equalization, the districts are sorted in ascending order of wealth which is defined as assessed valuation per pupil in Average Daily Attendance. The cumulative proportions of total operating expenditures accounted for by these districts are represented by the vertical axis. The curve thus plotted would be a straight line at 45° to both axes if the total operating expenditures were equal in





all districts — poor as well as wealthy. However, a sagging curve represents lesser expenditures in poor districts and suggests some inequity. The measure of this inequity as defined by gini coefficient G is given by the formula:

$$G = \frac{\text{Area A}}{\text{Area (A+B)}}$$

or after further simplification

$$G = \frac{0 \cdot 5 - \text{Area B}}{0 \cdot 5}$$

$$= 1 - 2 \text{ Area B} \qquad (1)$$

Area B is the area under the curve and if n is the number of districts, and

x_i = cumulative proportion of ADA for the ith district

y_i = cumulative proportion of $ for the ith district

$$\text{Then} \quad \text{Area B} = \sum_{i=1}^{n} \frac{(x_i - x_{i-1})\ (y_{i-1} + y_i)}{2}$$

$$\text{or} \quad 2 \text{ Area B} = \sum_{i=1}^{n} (x_i y_{i-1} - x_{i-1} y_{i-1} + x_i y_i - x_{i-1} y_i)$$

$$= (x_1 y_0 - x_0 y_0 + x_1 y_1 - x_0 y_1 + x_2 y_1 - x_1 y_1 + x_2 y_2 - x_1 y_2 + x_n y_{n-1} - x_{n-1} y_{n-1} + x_n y_n - x_{n-1} y_n)$$

$$= (x_2 y_1 - x_1 y_2) + (x_3 y_2 - x_2 y_3) + \ldots + (x_n y_{n-1} - x_{n-1} y_n) + x_n y_n$$

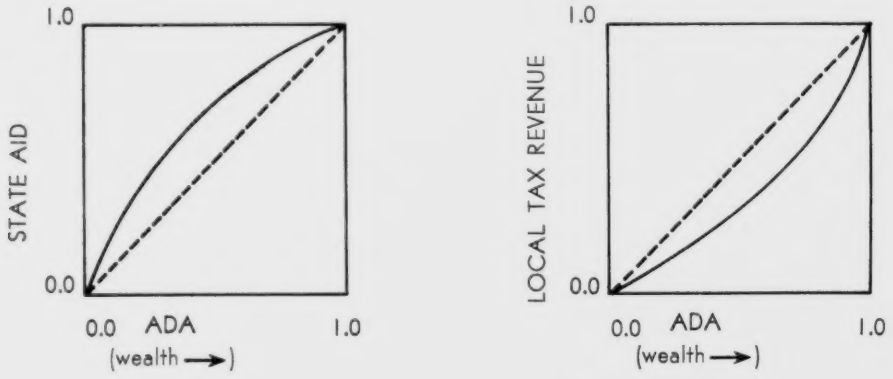
$$= \sum_{n=2}^{n} (x_i y_{i-1} - x_{i-1} y_i) + 1 \qquad (2)$$

$$= 1 - \sum_{n=2}^{n} (x_{i-1} y_i - x_i y_{i-1})$$

substituting the value of area B in eq 1

$$G = \sum_{n=2}^{n} (x_{i-1} y_i - x_i y_{i-1}) \qquad (3)$$

Gini Coefficient for State Aid:



Since poor districts get more state aid than wealthy districts, the curve in this case will be above the diagonal and formula 3 would result in a negative value of G. To avoid confusion we reverse the sign of G to make it positive. However, Gini coefficient as applied to state aid must be interpreted differently. The higher the value of G in this case, the better it is for poor districts and the higher is the equalization. On the other hand higher values of Gini coefficients for total expenditure and local revenue indicate lesser equalization.

APPENDIX B

RESEARCH REPORTS PREVIOUSLY PUBLISHED BY THE SUPERINTENDENT'S ADVISORY COMMITTEE ON SCHOOL FINANCE

Occasional Paper No. 1

"Definition, Measurement, and Application of the Concept of Equalization in School Finance", G. Alan Hickrod.

"Some Major Issues in the Refinancing of Education in Illinois", A. J. Heins.

"Memorandum to The Superintendent's Advisory Committee on School Finance", William P. McLure.

"School Finance Equalization Lawsuits: A Model Legislative Response", Arthur E. Wise.

Occasional Paper No. 2

"Equalizing Educational Opportunity by Means of A Resource Equalizer or Guaranteed Valuation Grants-in-Aid", Ben C. Hubbard and G. Alan Hickrod.

"The Impact of Changing School Finance on Metropolitan Areas", Robert N. Schoeplein.

"Comparison of Three Types of Equalization Formulas", William P. McLure.

"Comparison of Three Formulas for the Present Illinois Foundation of $520 per WADA", William P. McLure.

"Memorandum on Subcommittee Formation", Donald F. Eslick.

"The Rising Cost of Educational Inputs", Norman Walzer and Joseph Domitrz.

"District Power Equalization: An Initial Effort to Simulate Application to Illinois Public Schools — Part I", Raymond L. Lows.

"Memorandum to The Superintendent's Advisory Committee on School Finance", William P. McLure.

"Post-Serrano Grant-in-Aid Proposals in Other States", G. Alan Hickrod.

Occasional Paper No. 3

"The Effect of State Aid on the Scope of the Educational Program", A. J. Heins and Deborah L. Nutting.

"Status of Capital Assistance Financing for the Illinois Public Schools", Robert A. Burnham.

"Method of Computing Number of Weighted Pupil Instructional Units (WPIU)", William P. McLure.

"IEA School Finance Proposal", William P. Cote.

"A Proposed Recommendation to the Superintendent", A. James Heins.

"Disparities Among School Districts in Illinois and State Fiscal Policy", G. Alan Hickrod and Ramesh Chaudhari.

"District Power Equalization: An Initial Effort to Simulate Application to Illinois Public Schools — Part II", Raymond L. Lows.

"Relative Contributions of Property and Personal Income Taxes to Equalization of Public School Support", William P. McLure.

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* A limited number of these occasional papers are still available. To obtain copies, please contact:
Mr. Robert Clark, Director
Legislative Research
Office of the Superintendent of Public Instruction
302 State Office Building
Springfield, Illinois 62706

APPENDIX C

FIVE-YEAR STATE AID INCREASE PROJECTIONS
THREE-TIERED POWER EQUALIZER
(Chapter 4, pp. 129-133)

Table 1

District Characteristics

District	AVPWP*	71-72 Best 6 Mo. WADA	R†
Salt Creek (E—DuPage)	$45,304	1,101.03	1.635%
Westfield (E—Clark)	26,948	173.12	.92%
Wood Dale (E—DuPage)	19,663	1,446.18	1.53%
Oak Park R-F (S—Cook)	63,466	5,160.43	1.367%
Oak Lawn (S—Cook)	40,420	3,411.01	1.545%
Peotone (U—Will)	27,050	1,336.09	1.744%
Chicago (U—Cook)	24,714	512,754.09	1.9295%
Champaign (U—Champaign)	22,200	10,870.48	2.05%
Edwardsville (U—Madison)	15,959	5,289.75	1.65%

* Assessed valuation per weighted pupil.
† 1971 Education Fund Tax Rate.

Table 2

Five Year Projection for Selected Elementary Districts

	72-73	Y_1	Y_2	Y_3	Y_4	Y_5
Salt Creek						
G_1	169.93	169.93	169.93	169.93	169.93	169.93
G_2	0	22.39	206.50	300.09	270.20	240.29
GSA	169.93	192.32	376.43	470.02	440.13	410.22
Limit	NA	NA	230.64	276.76	332.11	398.53
L.R.	740.72	740.72	740.72	740.72	740.72	740.72
T.R.	910.65	933.04	971.38	1,017.48	1,072.83	1,139.25
Westfield						
G_1	349.42	349.42	349.42	349.42	349.42	349.42
G_2	0	11.07	64.28	161.50	302.71	487.93
GSA	349.42	360.49	413.70	510.92	652.13	837.35
Limit	NA	NA	NA	NA	NA	NA
L.R.	247.92	247.92	247.92	247.92	247.92	247.92
T.R.	597.34	608.41	661.62	758.84	900.05	1,085.27

Table 2 — Continued

	72-73	Y_1	Y_2	Y_3	Y_4	Y_5
Wood Dale						
G_1	422.24	422.24	422.24	422.24	422.24	422.24
G_2	0	125.60	305.61	468.74	455.66	442.68
GSA	422.24	547.68	727.85	890.98	877.90	864.92
Limit	NA	506.68	608.01	729.61	875.53	NA
L.R.	300.84	300.84	300.84	300.84	300.84	300.84
T.R.	723.08	807.52	908.85	1,030.45	1,176.37	1,165.76

G_1 = General State Aid per WADA from Tier I.
G_2 = General State Aid per WADA from Tier II.
GSA = Total General State Aid ($G_1 + G_2$)
Limit = 120% of previous year's grant.
L.R. = Local Revenue.
T.R. = Total State and Local Revenue.

Table 3

Five Year Projection for Selected Secondary Districts

	72-73	Y_1	Y_2	Y_3	Y_4	Y_5
Oak Park - RF						
G_1	107.13	107.13	107.13	107.13	107.13	107.13
G_2	0	0	75.94	238.45	249.66	207.18
GSA	107.13	107.13	183.07	345.58	356.79	314.91
Limit	NA	NA	128.55	154.26	185.11	222.13
L.R.	867.28	867.28	867.28	867.28	867.28	867.28
T.R.	974.41	974.41	995.83	1,021.54	1,052.39	1,089.41
Oak Lawn						
G_1	214.75	214.75	214.75	214.75	214.75	214.75
G_2	0	40.53	209.85	351.68	325.00	298.32
GSA	214.75	255.28	424.60	566.43	539.75	513.07
Limit	NA	NA	306.33	367.59	441.10	NA
L.R.	624.48	624.48	624.48	624.48	624.48	624.48
T.R.	839.23	879.76	930.81	992.07	965.58	1,137.55

G_1 = General State Aid per WADA from Tier I.
G_2 = General State Aid per WADA from Tier II.
GSA = Total General State Aid ($G_1 + G_2$)
Limit = 120% of previous year's grant.
L.R. = Local Revenue.
T.R. = Total State and Local Revenue.

Table 4

Five Year Projection for Selected Unit Districts

	72-73	Y_1	Y_2	Y_3	Y_4	Y_5
Peotone						
G_1	271.14	271.14	271.14	271.14	271.14	271.14
G_2	0	91.44	224.24	357.04	468.24	468.24
GSA	271.14	362.58	495.38	628.18	739.38	739.38
Limit	NA	325.36	390.43	468.51	562.21	674.65
L.R.	471.75	471.75	471.75	471.75	471.75	471.75
T.R.	742.89	797.11	862.18	940.26	1,033.96	1,146.40
Chicago						
G_1	384.36	384.36	384.36	384.36	384.36	384.36
G_2	0	129.81	298.61	451.11	451.11	451.11
GSA	384.36	514.17	682.97	835.47	835.47	835.47
Limit	NA	461.23	553.47	664.16	796.99	NA
L.R.	476.73	476.73	476.73	476.73	476.73	476.73
T.R.	861.09	937.96	1,030.20	1,140.89	1,273.72	1,312.20
Champaign						
G_1	354.28	354.28	354.28	354.28	354.28	354.28
G_2	0	161.80	355.80	446.80	446.80	446.80
GSA	354.28	516.08	710.08	801.08	801.08	801.08
Limt	NA	425.13	510.15	612.18	734.61	NA
L.R.	455.10	455.10	455.10	455.10	455.10	455.10
T.R.	809.38	880.23	965.25	1,067.28	1,189.71	1,256.18
Edwardsville						
G_1	413.68	413.68	413.68	413.68	413.68	413.68
G_2	0	116.43	230.43	344.43	458.43	521.43
GSA	413.68	530.11	644.11	758.11	872.11	935.11
Limit	NA	496.41	595.69	714.82	857.78	NA
L.R.	263.32	263.32	263.32	263.32	263.32	263.32
T.R.	677.00	759.73	859.01	978.14	1,121.10	1,198.43

G_1 = General State Aid per WADA from Tier I.
G_2 = General State Aid per WADA from Tier II.
GSA = Total General State Aid ($G_1 + G_2$)
Limit = 120% of previous year's grant.
L.R. = Local Revenue.
T.R. = Total State and Local Revenue.

APPENDIX D

EXAMPLES OF STANDARDS AND GUIDELINES FOR OPERATION OF A CAPITAL FINANCE PLAN

1. No State funds shall be apportioned until the requesting district presents (a) a set of educational specifications on its proposed project, and (b) evidence showing that a comprehensive school district reorganization study has been completed within the last three years which stipulates that the proposed building fits into eventual reorganization plans for the area as a future attendance center.

2. Grants to school districts may be used for new construction, remodeling or renovation, land purchase, modernization, equipment, and retirement of existing capital debt. Districts shall stipulate their intent when applying for state assistance.

3. Specific *guidelines* for the operation of the plan are presented in the following sections.

   a. The instructional unit shall be the base for determining state support. To determine the number of instructional units in a district, the formula should specify the number of pupils per square foot of instructional space and the percent of the optimum number of pupils that should be accommodated in study halls, music rooms, shops, laboratories, home economics rooms, business education classrooms, gymnasiums, learning materials centers, etc. Auditoriums, offices, locker rooms, cafeterias, and multi-purpose rooms will not be included in determining the number of teaching stations.

   b. In approving funds for constructing high school facilities, the State Office should approve only those projects in which the actual enrollment in unit or high school districts will be 500 students in grades 9-12, inclusive. Grants to elementary districts should be made only if there is evidence that the project conforms to sound educational practice that is in keeping with the orderly process of school district reorganization.

   c. Capital outlay grants should be separated from those in the *Foundation Program* and should provide for new construction, expansion or major alterations, repairs, or renovations, demolition or removal of structures, debt service payments, site purchase or development, athletic fields, furniture and equipment, as the district may require.

   d. Funds should be allocated annually but held in the Capital Development Board accounts. Projects should be approved by the Office of the Superintendent of Public Instruction and requests for payment made through OSPI to the Capital Development Board. Progress payments for construction would be made with the balance paid upon completion and inspection by designated state agencies. If moneys are to be used to retire existing debt, all of the funds would be released immediately.

   e. No state capital outlay aid will be given for additions to or remodeling of facilities if the contemplated expenditure exceeds 50 percent of the replacement cost (cost of a new structure). However, state allocations can be made for new equipment for use in these outdated facilities.

4. Funding and cost standards should recognize intra-state cost differentials; the need for technical assistance in bond marketing; adjustments for fluctuating costs, enrollments, and fiscal capacity; and the varying costs of housing different educational programs